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# East Europe Report

ECONOMIC AND INDUSTRIAL AFFAIRS

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29 July 1985

# EAST EUROPE REPORT

## ECONOMIC AND INDUSTRIAL AFFAIRS

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INTERNATIONAL AFFAIRS

CZECHOSLOVAK-YUGOSLAV ECONOMIC, TRADE RELATIONS

Prague CZECHOSLOVAK FOREIGN TRADE No 5, Mar 85 pp 42-43

[Article by Vladimír Suva]

[Text]

The Czechoslovak-Yugoslav long-term agreement of exchange of goods and services in the 1981-1985 period provides for a turnover of roughly 7,000 million dollars, a record five-year result in the history of economic relations between the two countries. Cooperation in Yugoslavia's capital investment effort and expanding industrial cooperation are important factors of this development.

**Czechoslovakia's Participation  
in Expansion of Yugoslavia's Power  
Industry**

Yugoslavia concentrates its capital investment effort primarily on the power, iron and steel, non-ferrous metallurgy, petrochemical and chemical industries, mining of fuels, the food industry, and certain other sectors.

Czechoslovakia has already delivered to Yugoslavia, for the Obrenovac thermal power station, two boilers with an output of 650 tonnes of steam per hour each for the 200-MW units, and three 920-tonne boilers for the 300-MW units. A complete 110-MW unit is in operation in the Kolubara thermal power station and two 110-MW units in the Kakanj thermal power station, where another unit with an output of 230-MW is also under construction. For the Drmno thermal power station, Škodaexport Foreign Trade Corporation is supplying two boilers with an output of 1,000 tonnes of steam per hour each, which will feed two 300-MW turbines.

Yugoslavia also buys Czechoslovak equipment for heating plants which also generate electric power. Two boilers with an output of 150 tonnes of steam per hour each and 16-MW and 25-MW turbosets have been delivered to Kosovo, four 50-tonne boilers and one 4-MW turboset to Mostar, two 220-tonne boilers to Zenica and two 32-MW heating-plant units to Tuzla, and a 120-MW heating-plant turboset is under construction at Zrenjanin.

Škodaexport Praha has delivered power-cascade equipment for the Vlasina-Vrlo hydroelectric power station, and has signed a contract for the export of two 42-MW turbosets for the Závaj hydroelectric power station.

Czechoslovak-made power station equipment is proving its worth in Yugoslavia, and talks are under way on further deliveries, for instance of two 300-MW turbosets for the Kolubara B thermal power station, reconstruction of boilers in Kolubara A, etc. Yugoslavia is also showing interest in heating station equipment.

Škodaexport cooperates successfully with leading Yugoslav firms, including Energoinvest Sarajevo, Jugoturbina Karlovac, Djuro Daković Slavonski Brod, Rade Končar Zagreb and Litostroj Ljubljana. Some of them are its partners in deliveries of power-generation equipment to third markets, for instance to Iraq and Libya.

Yugoslavia is also building coal gasification plants. The Czechoslovak Technoexport Praha Foreign Trade Company Limited has offered a tender for the necessary equipment for Kosovo, and will also produce the necessary technical documentation for Kolubara.

**Agriculture and Food Industry — Good Prospects for Cooperation**

The participation of Czechoslovak organizations in the development of Yugoslavia's agriculture and food industry is no less important. The principal foundations of this type of cooperation include the

credit agreements concluded by Transakta Praha Foreign Trade Organization and the Yugoslav partners Dunaj-Tisa-Dunaj Novi Sad, Agrovodina Novi Sad, UPI Sarajevo and Agrokomerc Velika Kladuša, under which Czechoslovakia exports machinery and equipment and imports from Yugoslavia farm products, food, and to some extent also engineering products and consumer goods. The Czechoslovak exports include mainly silos, mills, drying plants, warehouses and other agricultural equipment.

Independently of these framework agreements, Technoexport Praha has exported equipment for two sugar mills with a daily processing capacity of 4,000 tonnes of sugar beet, which recently went into operation at Požarevac and Sabac. The deliveries were made in cooperation with the Yugoslav firm Djuro Djaković, Slavonski Brod.

Technopol Bratislava Foreign Trade Company Limited has also signed an important deal with the Yugoslav firm Pelagonija Skopje on deliveries of equipment for a bakery in Czechoslovakia.

Industrial cooperation is another form of partnership in the sectors listed above. One cooperation contract concerns the manufacture of bottling lines. A long-term agreement has also been signed on cooperation in the designing, delivering and assembling of equipment and complete plants for the food industry.

#### **Deliveries for the Metallurgical Industry and Mines**

Czechoslovakia also participates, to a large extent, in the expansion of Yugoslavia's metallurgical, mining and manufacturing industries. Skodaexport Praha Foreign Trade Corporation has supplied equipment for the billet mill at the Zenica combine, and an 850 blooming mill for the Boris Kidrič iron works at Nikšić with an annual capacity of 300,000 tonnes of billets, a 750-mm blooming mill for the Ravnje iron works, a melting plant for Dalit Daruvar, an electrolysis plant for Šibenik, and other equipment.

In recent years, Strojexport Praha Foreign Trade Corporation has participated in the development of open pit and underground mines in Yugoslavia. Czechoslovak loaders, excavators, conveyors and other equipment are serving well at the Šiški Brod, Ljubija-Tomašice, Kičevo-Oslomej, Donro Selo and Suvodol mines. A contract was signed last years for deliveries of belt conveyors for the Šikulja and Kreka Dubrava mines, with cooperation from the Yugoslav firm Energoinvest-TTU Tuzla.

#### **Complete Petrochemical Units**

Technoexport Praha Foreign Trade Company Limited has delivered to Yugoslav

via complete oil-processing units and individual equipment for refineries in Novi Sad, Pančevo and Smederevo. To the Naftagaz firm it has delivered equipment for a lubricating oils and fats plant, spherical and cylindrical tanks, oil furnaces and crude-oil storage tanks. The Bosanski Brod refinery is also working well.

The Yugoslav chemical industry has also received important deliveries of Czechoslovak-made equipment. Technogaz Belgrade operates fifteen liquid-oxygen pressure containers and sixteen oxygen evaporation units. The Smederevo metallurgical combine has an air separation unit with a capacity of 12,000 cubic metres per hour. In cooperation with Czechoslovak firms, a large evaporation unit for gas liquefaction has also been built there. Its two tanks can store 250,000 cubic metres of oxygen and the same amount of nitrogen. A contract was signed recently for the delivery of urea-making equipment for the Yugoslav firm HIP Pančevo. More cooperation in capital investment is scheduled for the coming five-year plan.

#### **New Cooperation Agreements**

Czechoslovakia's current five-year plan (1981—1985) is proving to be particularly favourable to the expansion of cooperation between Czechoslovak and Yugoslav firms. In 1983, goods made under cooperation arrangements accounted for 50 per cent of the overall trade turnover between the two countries, against only 29 per cent in 1976. The table below also shows the steady growth of industrial cooperation exchange.

#### **Czechoslovak-Yugoslav trade exchange under cooperation arrangements in the Seventh Five-year Plan**

	'000 dollars	
	Czechoslovak exports	Czechoslovak imports
1981	25,175.5	23,279.2
1982	25,687.0	27,555.0
1983	27,772.0	26,572.0
1984	30,831.25*)	30,835.25*)

\*) est.

The favourable development of cooperation ties is shaping the conditions for meeting the overall target set by the Five-year Plan — to exchange goods produced on the basis of more advanced forms of economic cooperation to the value of 300 million dollars.

Some recently signed new agreements will help to attain this aim. They include cooperation between Dista Děčín (Strojexport Praha Foreign Trade Corporation) and Pobjeda Novi Sad in the manufacture of high lift trucks, joint manufacture of electronic components by Tesla Rožnov (Kovo Praha Foreign Trade Corporation) and Iskra Ljubljana, and cooperation between Skoda Plzeň Group Enterprise (Skodaexport Praha Foreign Trade Corporation) and FAS Skopje in the production of articulated trolleybuses.

Cooperation agreements have also been approved between Elektro-Praga Hlinsko (Merkuria Praha Foreign Trade Corporation) and Iskra Železniky and Iskra Komerc Ljubljana on the manufacture of electric household appliances, between TST TOS Hostivař (Strojimport Praha Foreign Trade Corporation) and Metal Progres Zrenjanin on the manufacture of grinding machine components, and between other firms.

Partners on both sides value the advanced forms of economic cooperation for their long-term character and for the fact that, compared to classical goods exchange, cooperation ties do not suffer from various fluctuations caused by balance of payments deficit and from many other adverse influences in international trade. Past practice has shown

that the highest effect results from contracts concluded on the basis of real needs, analysis of the potential of both partners, and respect for the specifics of the national economies. If it further proves possible to harmonize the long-term scientific and technical development plans, the pre-conditions will also be shaped for systematic improvement of the technical standard of production. Good prospects also appear to exist for the development of advanced forms of cooperation in the power industry, in the manufacture of machine tools and forming machines, textile and leather machinery, shunting locomotives, lorries, small tractors, small agricultural mechanisms and consumer durables, in the wood-working industry, in the construction of industrial plants, etc.

Czechoslovakia is Yugoslavia's fifth largest trade partner, and the second largest one among the socialist countries (after the USSR), but there is still much scope for further expansion of economic ties between the two countries, particularly in the sphere of industrial cooperation, which has demonstrated its long-term worth. This is also why representatives of government authorities, foreign trade organizations and manufacturing firms are now examining new suggestions for agreements to be concluded for the coming (1986-1990) five-year plan. ▲

CSO: 2020/158

29 July 1985

## BULGARIA

## ECONOMIC RELATIONS WITH FINLAND EXPANDING

Sofia IKONOMICHESKI ZHIVOT in Bulgarian 24 Apr 85 p 8

[Article by Vladimir Vasilev: Expanded and Extended Cooperation"]

[Text] Recently Bulgarian society and the whole Bulgarian nation have been following the friendly visit of Mauno Koivisto, president of the Republic of Finland, to Bulgaria with particular interest. He was invited to visit our country by the chairman of the State Council of the Bulgarian People's republic, Comrade Todor Zhivkov.

Interest in intensive meetings and discussions between the leaders of the two friendly nations is well founded. Bulgaria and Finland represent a demonstrable example of how two small European countries with different social systems can develop beneficial contacts and relations. The contacts were activated particularly after meetings and negotiations held during the last few years between business circles and at the governmental level as well. The treaties established during that time have created the conditions for their further development.

In more recent years commodity exchange between the Bulgarian People's Republic and Finland have showed steady development. Beginning in 1975 this exchange has constantly increased, and last year it reached 35 million dollars. Our country exports the following to Finland: textile products, food and agricultural goods, machines and equipment, chemical products and metals. It imports mainly machines and equipment for nonferrous metallurgy; for the chemical and cellulose-paper industry; special steel; chemicals; and products of the cellulose-paper industry.

We should note immediately, however, that the tendency for an annual increase in commodity exchange between these countries could have considerably greater possibilities. Bulgaria is interested in increasing the sales of its machine building production, metal processing machines, electric trucks and electric hoists, radar installations for river and sea travel, auto parts, products of our chemical industry such as high and low pressure polyethylene, polyvinyl chloride, sodium tripolyphosphate, automobile tires, calcinated soda, metallurgy products such as hot and cold rolled sheet iron, pipes, light industry products such as knitted outer and underwear, ready to wear clothes, work clothes, wool and cotton fabrics, etc. There are possibilities for increasing



the sales of wine, oriental and broad-leaf tobacco, fresh and processed fruit and vegetables, furniture, etc. As far as imports are concerned, favorable conditions exist for buying Finnish machines and equipment, know-how and technical innovations in the fields of metallurgy, the cellulose-paper industry, machine building, electronics, chemistry, etc.

As a result of active contacts between representatives of both countries, significant advancement has been made in recent years in discussing a number of projects for production and technical cooperation between Bulgarian economic and foreign trade organizations and Finnish firms. The most important treaty in the history of Bulgarian-Finnish economic relations was signed between the Tekhnoimport Engineering Economic Organization and the Finnish AOR Industry Group for reconstruction and modernization of the Georgi Damyanov Copper Extraction Combine. The execution of this important treaty will no doubt serve as an incentive for more effective exploration of the possibilities for economic and industrial cooperation, including joint construction projects in third countries.

The major areas where Bulgaria and Finland could concentrate their mutual interests are: automated production processes in the chemical and cellulose-paper industries; expanding the capacities of the cellulose-paper industry in our country; production and sale of motorcycle and bicycle tires; seeking new means of saving power; etc.

Cooperation is also actively developing between our two countries in the area of tourism. The Finns occupy first place among the guests in our country who use the services of our balneological resorts. Around 20,000 Finns visited Bulgaria last year. Together with Proex Oy, the modern villa location Yagoda in Borovets was built for them in 1983, and in the middle of this year the Elenite complex will be put into operation on the shore of the Black Sea.

We have a firm basis for considering that economic cooperation between our two countries will continue to develop successfully. During the next few years we could expect an increase in bilateral trade and enrichment of economic ties, as well as expansion of Bulgaria's participation in the multilateral cooperation between the member nations of the CMEA and Finland. Naturally in order to achieve this we need to use new, more perfected forms, such as industrial cooperation, long-term agreements on mutual supplies products, joint projects in third countries, etc.

Undoubtedly all these questions will find their place in the meetings and discussions between the chairman of the State Council of the Bulgarian People's Republic Todor Zhivkov and the president of the Republic of Finland Mauno Koivisto. Prospects for further, even more active development of the fruitful cooperation, for raising it to an even higher level, are being outlined.

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BULGARIA

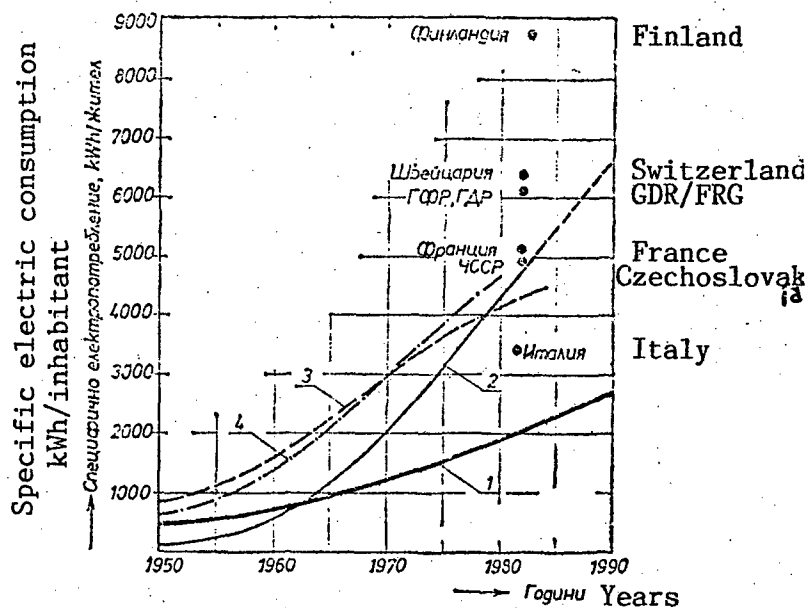
DEVELOPMENT OF POWER INDUSTRY BY 1990 OUTLINED

Sofia ENERGETIKA in Bulgarian No 2, 1985 pp 3-8

[Article by engineer Dimitur Iliev, chairman of the Energetika Corporation: "The Bulgarian Power Industry During the Ninth 5-Year-Plan"]

[Text] Building the Bulgarian People's Republic's power supply is a clear example of the possibilities of the socialist path of development. During the last 4 decades after the socialist revolution of 9 September 1944, and especially after the April Plenum in 1956, the Bulgarian Communist Party and the government have devoted deserved attention to power supply, as its development proceeds at ever-increasing rates.

In a comparatively short historical period, the energy industry has overcome its backwardness, reached the level of developed European countries, and is now ranked with the leading nations which have adopted the achievements of scientific-technical progress. In 1984 the production of electric energy in the nation reached 44.6 billion kWh, 28.5 billion produced by atomic power. With its specific electric consumption of 5240 kWh per inhabitant, Bulgaria is more than 2.92 times higher than the world average and has reached the figure of the developed countries (Figure 1). And in the area of specific energy consumption of around 5 tons of conventional fuel per inhabitant, it is already more than twice the average for the world. The production of coal reached 33.9 billion tons in 1984 and the production per capita places our country among the top 6 in the world. Bulgaria now occupies first place on the planet in the relative percentage of production of electric power from low-caloric solid fuels.



Фиг. 1. Специфично потребление на електроенергия в НРБ и други страни

1 — средно за света, 2 — НР България, 3 — средно за света без СССР, 4 — СССР

Figure 1. Specific consumption of electricity in Bulgaria and other countries. 1. Average for the world. 2. Bulgaria. 3. World average without USSR. 4. USSR

During the Ninth 5-Year-Plan the general line for the development of the Bulgarian power industry will be determined by the resolutions of the 12th Congress of the Bulgarian Communist Party and new formulations developed by Comrade Todor Zhivkov after the congress, as well as the announcement of basic directions for further development and expansion of economic and scientific-technical cooperation between the nations which are members of the CMEA made by the leaders of the socialist nations in Moscow in June 1984, in addition to further cooperation with the USSR and other fraternal socialist countries.

The development of the power industry in the Ninth 5-Year-Plan is linked to two basic policies:

- 1) further strengthening of energy independence for our nation through expansion of the utilization of local energy resources, rapid construction of nuclear power capabilities, and utilization of effective programs for saving energy;
- 2) broader application of worldwide and Bulgarian achievements in scientific-technical progress.

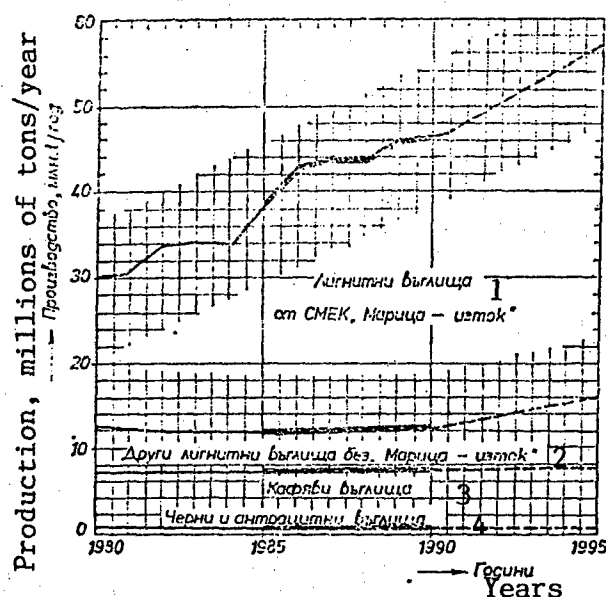
Nuclear power is foreseen as maintaining our leading positions in the general development of the power base. Nuclear power plants will increase their share of the production of electric power from 28 percent at the end of 1985 to 44 percent in 1990, to over 50 percent in 1995. The qualitative changes will be

even more substantial. Nuclear power today is entering a new stage in its development, through implementation of the latest revolutionary achievements of technical progress. At the Kozloduy nuclear power plant, a unique VVER-1000 nuclear reactor is being built, a giant of Soviet nuclear machine building, with greatly improved technology, technical resolutions, construction and capacity, in comparison with the existing VVER-400. The Bulgarian People's Republic is the first socialist country to build such a nuclear power block outside the USSR. The new generation of Soviet VVER-1000 reactors will provide the basis for the development of our nuclear power plants at Kozloduy and Belene, where we foresee operating 8 power blocks of this type by the year 2000.

A qualitatively new stage in the utilization of nuclear power will be its application to central heating systems for the nation. During the Ninth and Tenth 5-Year-Plans, first the Kozloduy, and then the Belene plant will supply central heating to Kozloduy, Miziia, Svishtov, and Belene. In terms of the further development of central heating systems based on nuclear capacities, we foresee in the near future beginning the first nuclear heating plant in our country, in the capital, with an initial heating capacity of 500 MW for each of the 2 blocks, which will increase at a later stage to 2,000 MW.

The development of coal output will be attained chiefly through the use of intensive factors: reconstruction, modernization, expansion and perfection of existing mining capacities through the application of the most modern mechanized and automated coal mining complexes, mechanization, and technology. We plan to expand the application of comprehensive mechanization at the underground mines and to increase the efficiency of heavy mining and transport mechanization at the open pit mines. Automation of the processes and robotization of the heaviest operations will be implemented more broadly for further reduction of the difficult and unattractive manual labor.

Mining local coal is one of the basic directions in perfecting the structure of the fuel-energy balance and the further satisfaction of the needs in our nation for energy resources. The general output of coal must rise from 33.9 million tons in 1984 to 45.4 million tons in 1990, with the basic additional growth to come in the form of lignite at the Maritsa-Iztok complex (Figure 2).



Фиг. 2. Развитие на въгледобива

Fig. 2. Development of coal output.

1. Lignite coal from Maritsa-Iztok Economic Mining and Power Co.
2. Other lignite coal without Maritsa-Iztok.
3. Brown coal.
4. Black and anthracite coal

Priority development in the future will be reserved for open pit mining of coal, which will permit the recovery of new electric production and heating capacities: the 210 and 450 MW power blocks at the Maritsa-Iztok complex, municipal heating plants in Pazardzhik, Stara Zagora, and Khaskovo, and new heating plants at a number of okrug centers and other cities. What we have in mind most of all is rapid development of capacities at the Maritsa-Iztok Complex, where the output of coal must reach 33.5 million tons in 1990. During the Ninth 5-Year-Plan, we plan on introducing 6 million tons of mining capacity, 3 millions tons per year each at the Troyanovo-Yug and Troyanovo-Sever mines.

Significant development will also be obtained through underground mining. At the Marishki Baseyn Economic Mining and Power Company they plan on obtaining 800,000 tons of new capacity at the Zdravets mine for supply to the Khaskovo thermoelectric power plant and growth in the central heating capacities of the Maritsa 3 thermoelectric power plant. At the United Bobov Dol mine, the output in 1990 should reach 3.2 million tons with the introduction of 540,000 tons of new capacities in the Babino, Ivan Rusev, and Mlamolovo sectors. This output should be secured chiefly through highly mechanized and automated coal complexes with minimal utilization of manual miner labor. We foresee increasing the output from the Cherno More mine with the introduction of 600,000 tons of new capacities at the Cherno More 2 mine.

At the Nedelishte pit of the Bolshevik mine, they plan on introducing 600,000 tons of new capacity to replace falling capacities and to begin its reconstruction with the aim of increasing the output to 1.2 million tons per year

in the next few years, for supply to the Pazardzhik thermoelectric power plant and other consumers. During the Ninth 5-Year-Plan construction will begin on the Chukurovo underground mine to replace falling capacities at the open pit of the same mine. Construction of new heating capacities in Blagoevgrad and Kyustendil requires modernization of the Bistritsa mine and the Oranovo pit to increase their productivity.

Production of briquettes is foreseen remaining at the 1.4 million ton level, while it is imperative to increase their quality and to change the way they are supplied to the consumers.

During the Ninth 5-Year-Plan we must resolve questions related to the development of coal from the Dobrudzha find and the Elkhovo mine.

The adoption of new technologies will be maintained as the main direction in the development of thermal energy. The large-scale implementation of Bulgarian technology for direct burning of low-quality local coal will be continued. Based on this, we foresee the introduction of two new blocks, of 210 MW each, at the Maritsa-Iztok 2 thermoelectric power plant, at the end of 1988 and 1989, after the construction of the first expansion of this plant with similar equipment. Also in 1988-90 and also at the Maritsa-Iztok complex, we foresee construction beginning on new power blocks with a capacity of 450 MW. The blocks will have maneuverable characteristics and will work in the sub-summit portion of the load diagram, which will favor the normal functioning of the electric power system. The first 450 MW block should, by the middle of the Tenth 5-Year-Plan, replace the two physically and morally worn out 150 MW blocks at the Purva Komsomolska thermoelectric power plant, and the second will increase the capacity of the Dima Dichev thermoelectric power plant. The blocks with these characteristics of using low quality lignite are a novelty in worldwide practice and represent a substantial step forward in scientific-technical progress in the utilization of low quality fuel.

Further development of heating supply to the populace and to industry also will come about chiefly because of the use of local fuels and on the basis of the new technology for burning them, as principally new constructions of steam and water heating cauldrons with capacities of 100 to 220 tons of steam per hour and 65 to 100 Gcal/h are used. We foresee introducing new technologies for the utilization of fuel wastes from thermoelectric plants.

In the field of hydroelectric power, the design plan envisions the full operation of the Chaira pumping-storage hydroelectric plant, which is unique in the world in terms of its size and which will raise the efficiency and security of the electric power system through the presence of huge nuclear capacities in it. We foresee beginning construction of the Mesta and Sredna Vucha cascade the whole river bed will be utilized, and the Mesta cascade will bring the nation's water problems to resolution by transporting unused water to rayons which need it.

The design plan for supplying heat and central heating systems foresees significant development in the Ninth 5-Year-Plan. The share of the population which will be linked to the heat supply systems is planned to increase from

11.6 percent in 1985 to 17.2 percent in 1990, and the number of inhabitants with central heating in the country will increase from 1.4 million to 1.59 million, and the centrally heated residences, including public buildings, will increase from 480,000 to 761,000 apartments.

Centralized heating supply will receive its greatest development in Sofia. After the expansion of the Sofia thermoelectric power plant and the Traycho Kostov thermoelectric power plant, which will be put into operation in 1985 and 1986, we foresee expansion of the Zemlyane heating plant and the Lyulin heating plant, by 300-400 Gcal/h. each. By 1990 the degree of centralized heating supply in the capital will grow from 65 to 77 percent. As a result of this growth, about 950,000 people will obtain central heating (84.8 percent of the total number of the capital's inhabitants), thus we will practically overcome the existing disproportion between housing construction and supplying heat to it.

In the Ninth 5-Year-Plan we foresee completing the preparation for the construction of the first nuclear heating plant in our country, which after 1990 will cover the major part of the heating load in the city. New preconditions for saving huge quantities of liquid and gaseous fuels will be created, and these fuels will be passed along to other sectors of the national economy.

The plan foresees even greater development in the supply of heat to a number of other cities in the nation. Before 1990 we must complete construction of the thermoelectric plants for lignite coal in Stara Zagora, Pazardzhik, and Khaskovo, which at the first stage (up to 1990) will have an installed heating capacity of 70 Gcal/h each and 30 MW of electric capacity each. Local fuels will be utilized in the industrial heating plants in Kyustendil, Blagoevgrad, Kurdzhali, Nova Zagora, etc., which will be equipped with Bulgarian steam cauldrons of 100 t/h each and water heating cauldrons of 65 Gcal/h each. The existing Republika plant in Pernik and the Maritsa 3 in Dimitrograd will be expanded and modernized with the same type of water heating cauldrons.

The new tendency in heating supply systems is an application of long-distance heat supply after the reconstruction of condensing blocks for a central heating schedule for work. These reconstructions, as foreseen, will be carried out at the Varna, Bobov Dol, and Republika thermoelectric plants.

Speaking generally for the country, we foresee a qualitative change in the structure of the fuel balance, including the plants of the Energetika Corporation, in connection with centralized heating supply. The share of imported coal will decrease from 20 to 16.1 percent, of fuel oil and gas from 78.4 to 68.4 percent in 1990 and to 46.3 percent in 1995. Because of this, the use of local lignite coal will increase from 9.6 percent in 1989 to 12.4 in 1990, to 20.5 in 1995. By 1995 there is a prognosis for nuclear heat power sources to supply 17.1 percent of the general heating consumption. In this way, we expect that for Sofia alone the costs for fuel oil and natural gas in 2000 would be at a pre-1980 level, independent of the fact that 600,000 more people would have central heating.

The systems for transfer, transformation, and distribution of electric power will receive further development as the basic directions and tendencies are maintained under conditions of significantly increased quantity. This growth in network activity is determined by the necessity of transferring significant capacities over long distances as a result of the uneven distribution of production capacities and their great concentration up to 1990, by the necessity of the reserve of electric power supply to the consumers, by the higher requirements for quality in the supply of electric power for industry and domestic life. The network for ultra-high, and average voltage, as foreseen, will grow by about 5,000 kilometers alone in the course of the 5-Year-Plan, and the number of substations at 444, 220, and 110 kV will increase to over 80.

The plan for the Ninth 5-Year-Plan is also distinguished by qualitative directions in the development of networks. We will continue to affirm the accepted principle of direct transformation of electric power from 400 to 110 kV, which is linked to significant technical and economic advantages. The requirements for safety in drawing electric power from nuclear power plants will increase. We foresee significant growth in the system for offsetting reactive loads as a means for regulating the schedule for voltage in the power system. We have outlined a plan for increased construction of electric wires with two triads on each post, substations with simplified schemes, introducing new technologies for rapid and more efficient construction of networks.

The clearest example of technical progress in this period is the construction of the 750 kV intersystem link between the USSR, the Romanian Socialist Republic, and the Bulgarian People's Republic and the 750 kV substation in Bulgaria, which is now found in only a few countries in the world. The new intersystem link has a comprehensive purpose. It creates the possibility of realizing an additional effect from putting in load schedules and especially of preserving the system during emergencies in the powerful aggregates of the electric energy system.

According to the design plan, by the end of the 5-Year-Plan we foresee that each billion kilowatt hours of electric power produced will correspond to 220 km. of high tension electric wire (for the German Democratic Republic in 1980, this figure was 28/ km.). We also plan on each 1,000 square kilometer of land in the country corresponding to 124 km. of high tension electric wire (for the GDR in 1980 this figure was 236 km.).

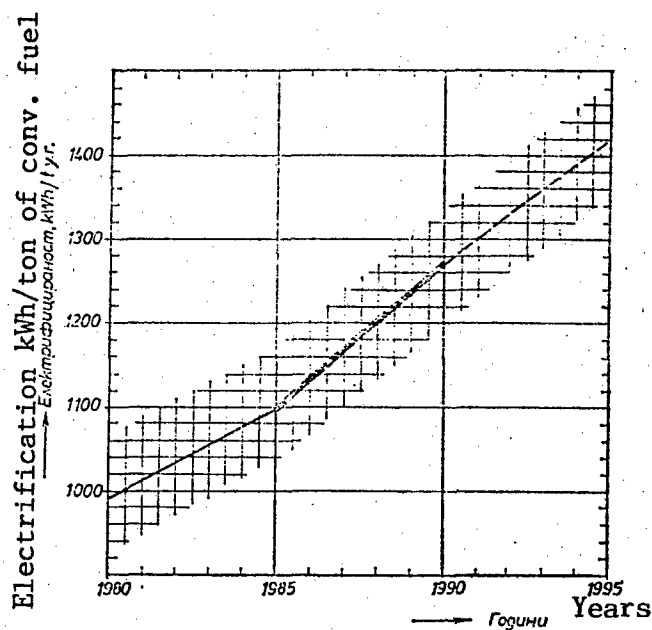
During the Ninth 5-Year-Plan we will continue, at high rates and at a qualitatively higher level, to implement systems for automated control of the constant production processes in the various fields. The implementation of comprehensive systems for automation, primarily on the basis of microprocessor technology, will cover open pit and underground mining of coal, production (nuclear, thermoelectric, and hydroelectric power plants), transfer and distribution of electric and thermal energy. We will finish, along the basic lines, the construction of the automated system for dispatcher control, which is unique for our nation and countries from the socialist camp; thus with contemporary hardware and software we will achieve optimal and reliable control of the power supply system.



The activity of automating the engineering labor will be directed toward fuller utilization of the possibilities for the existing computer technology, implementation of new program oriented microcomputer systems with broad utilization of the dialog system and machine graphics in resolving complex engineering and technical problems. For the needs of economic control, we foresee beginning construction of a system for collecting, processing, and using information with a developed microcomputer terminal network and a hierarchical data base.

In order to increase the training of the operations staff at the thermoelectric and nuclear power plants, we will begin construction of training systems.

A characteristic for the energy balance in our country during the Ninth 5-Year-Plan is the further growth in its electrification, conditioned by the lack of high quality fuels for heating and technological processes. During the 1980-85 period, the electrification coefficient increased from 923 to 1,098 kWh per ton of conventional fuel. By 1990 we foresee a new increase in this coefficient, to 1,273 kWh per ton of conventional fuel (Figure 3). Similar indicators characterize power supply in other developed countries with comparatively limited local energy resources and a high relative share of electric production from nuclear power plants: France, 1050; Sweden, 1252; and Switzerland, 1080 kWh per ton of conventional fuel in 1981.

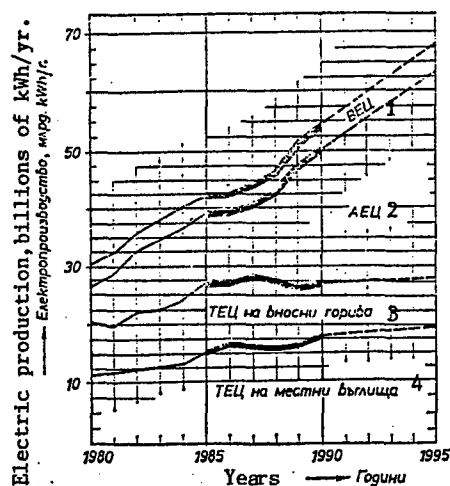


Фиг. 3. Електрифицираност на горивно-енергийния баланс в НРБ през следващите години

Fig. 3. Electrification of the fuel-energy balance in Bulgaria in the next few years

The basic quantities of electric power in the nation obtained are used by industry--over 50 percent--and in the domestic sector, from 30 to 35 percent. In the years of the Ninth 5-Year-Plan we expect further growth in electric consumption in the domestic sector, especially during the 1988-89 period, when we expect the introduction of new central heating capacities. Thus we expect the specific electric consumption of 5,240 kWh per inhabitant in 1984 to increase to 6,970 during 1990 (Figure 1). According to this indicator our nation will surpass many of the developed European countries.

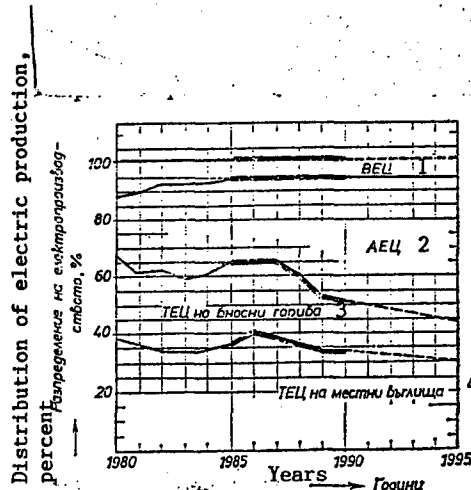
The basic trend, outlined in the plan for development of power supply during the Ninth 5-Year-Plan, is a growing significance for our own energy and natural resource base (Figures 4 and 5). The share of electric power produced by local energy resources (coal, hydroelectric and nuclear energy) will increase from 75.2 percent in 1985 to 85.4 percent in 1990. The share of electric energy produced by the thermoelectric power plants with imported fuel will decrease from 24.8 percent in 1985 to 14.6 percent in 1990. The increase in electric energy produced by thermoelectric plants running on local fuels will be on the order of 2 billion kWh. We will secure the introduction of 3,525 MW of new electric production capacities, including 2,000 MW from the nuclear power plants, 630 MW from the thermoelectric power plants, of which 450 MW will be from local fuels, and 895 MW from hydroelectric power plants and pumping-storage hydroelectric power plants.



Фиг. 4. Электропроизводство на централите от корпорация „Енергетика“

Fig. 4. Electric production of plants of the Energetika Corp.

1. Hydroelectric plants. 2. Nuclear power plants.
4. Thermoelectric plants with local coal.



Фиг. 5. Структура на електропроизводството на корпорация „Енергетика“

Fig. 5. Structure of electric production of the Energetika Corp.

3. Thermoelectric plants with imported fuel.

In the last years of the Ninth 5-Year-Plan these will significantly improve the conditions for normal power supply. The period from 1986 through 1987 will be an exception, when we expect a shortfall in the peak capacity, as will the years up to 1990, which will be in a state of insufficient emergency and frequency reserve.

A particularly important direction in the energy supply policies for the nation in the future is increasing the efficiency and economical utilization of energy resources, not only in power supply, but in all branches of the national economy, the development of non-energy consuming productions, decreasing the losses of electric and thermal power. This activity will continue to be developed on the basis of coordinated efforts on the part of all organizations and administrations in the country, of the whole society.

The fulfillment of the tasks outlined in the Ninth 5-Year-Plan requires the resolution of several general questions:

1) A decisive and qualitative change in the approach to the design and construction of specialized organizations, which are goal-oriented in constructing power supply sites, supplied with modern, mechanized means for more precise construction, developing a corresponding infrastructure, which requires ensuring a significant decrease in the construction deadlines and increasing its quality.

2) In order to ensure having the cadres for power supply engineering, it is necessary first of all to create the economic and social preconditions for selecting and stabilizing the trained workforce and well trained specialists.

It is necessary to perfect the material stimuli in the branches of power supply and to improve the social conditions most of all in the major energy centers.

3). Constantly growing international prices for furnishing energy require us rapidly and decisively to increase the share of local equipment at economically acceptable prices.

All the new large power sites, which will be constructed during the Ninth 5-Year-Plan and up to 1995-2000, will represent new heights in scientific-technical progress not only on scales that fit our country. Bulgarian power supply in the future will continue to develop in correspondence with the most progressive trends in world power supply, based on the leading achievements of our own, worldwide, and most of all Soviet science and technology.

12334

CSO: 2200/145

CZECHOSLOVAKIA

TRADE WITH USSR OUR LIFELINE SAYS MINISTRY OFFICIAL

Prague HOSPODARSKE NOVINY in Czech 31 May 85 p 3

[Article by Engr Jan Cisar, Federal Ministry of Foreign Trade: "Czechoslovak-Soviet Trade: A Linkage Important to Life"]

[Text] Czechoslovak-Soviet cooperation was and is in the entire postwar period the most reliable base for the development of our economy. It is a basis for Czechoslovak external economic relations and the focal point for Czechoslovakia's cooperation with the socialist countries. At the 16th Congress of the CPCZ, Comrade Gustav Husak emphasized: "Universal cooperation with the Soviet Union facilitates the smooth development of our national economy and the solution to vital questions of scientific-economic development. It helps us to attain peak technology, raw materials, materials and energy. It assures us of an advantageous and stable market for our products."

The importance for the Czechoslovak economy of economic relations with the USSR can be documented, among others by the share the value of mutual trade has in the overall volume of Czechoslovak foreign trade, which attained 45 percent.

Dynamics

The ideological and action unity of the CPCZ and the CPSU, the identity of fundamental strategic goals of Czechoslovakia and the Soviet Union and the development of the national economies of both countries represented a reliable base for mutual collaboration and trade. This is documented by the data in Table 1 which covers the development of Czechoslovak-Soviet trade for the period 1948 through 1984 (in current prices):

Table 1. Index of Development of Czechoslovak Trade (1948 = 100) and the USSR Share

<u>Item</u>	<u>1948</u>	<u>1960</u>	<u>1970</u>	<u>1980</u>	<u>1984</u>
Czechoslovak exports, total	100	157	502	1,541	2,180
Exports to USSR	100	494	1,015	3,340	5,760
USSR share in total exports, %	16.0	34.1	32.5	34.4	42.0

Table 1 (continued)

<u>Item</u>	<u>1948</u>	<u>1960</u>	<u>1970</u>	<u>1980</u>	<u>1984</u>
Czechoslovak imports, total	100	290	590	1,803	2,517
Imports from USSR	100	568	1,085	3,672	6,653
USSR share in total imports, %	16.8	34.1	32.2	36.0	46.8

We can see that in the years 1948 through 1984, expressed in units of value, mutual trade between Czechoslovakia and the USSR grew by an average of 2.6 times more rapidly than overall Czechoslovak trade with the rest of the world. This is reflected by the growth of the USSR share in the overall volume of our foreign trade—from 16 percent in 1948 to the current 45 percent. In absolute values, the turnover in mutual trade in 1984 represented 12,875 million convertible rubles. The numbers speak of the extent of material problems and mutual requirements which were solved in mutual economic and scientific-technical cooperation and of their permanent deepening.

The responsible material volumes involved in mutual deliveries and their dynamics can be approximated at least on the basis of the following two examples:

1. Deliveries of petroleum and petroleum products in 1957 exceeded an annual volume of 1 million tons and their growth continued with the exceeding of an annual volume of 10 million tons in 1970. At the halfway point between the 1970's and 1980's we were already importing around 20 million tons per year. During the total period of 1947 through 1970 we drew 70.6 million tons of petroleum. In 1985 the 300 millionth ton of petroleum will have been delivered. This means that for the period 1971 through 1985 we will import more than 230 million tons of this raw material from the USSR.

2. This year the Soviet Union will also deliver the 300 millionth ton of iron ore. With respect to this commodity, the volume has also continued to grow from 703,000 tons in 1948 to more than 10 million tons in the 1980's. This was accompanied by an increase in the quality and an improvement in the structure of the deliveries of this raw material.

In a similar manner it will be possible to document the development over the past 40 years with respect to imports of black high-energy coal, pig iron, alumina, copper, nitrogenous fertilizers, cotton, electric energy, ferroalloys and tens of other important components involved in our imports.

#### Structure

In addition to the dynamics of mutual trade, its structure is of exceptional importance. A review of its contemporary status and development in comparison with the overall structure of our exports and imports is provided by Table 2.

Table 2. Merchandise Structure of Czechoslovak-Soviet Trade (in percentage, current prices)

<u>Item</u>	<u>1948</u>	<u>1960</u>	<u>1970</u>	<u>1980</u>	<u>1984</u>
Czechoslovak exports					
Machines and installations					
Total	20.3	45.1	50.2	49.8	56.3
USSR	23.1	49.2	59.0	65.8	68.4
Raw materials, fuels and materials					
Total	40.9	29.6	29.4	30.0	25.3
USSR	37.9	20.0	17.6	14.3	12.0
Foodstuffs and raw materials					
Total	5.5	5.2	3.8	4.4	3.0
USSR	9.5	3.9	1.4	1.6	1.8
Industrial consumer goods					
Total	33.3	20.0	16.5	15.8	15.4
USSR	20.5	26.9	20.0	18.3	17.8
Czechoslovak imports					
Machines and installations					
Total	6.2	21.7	33.3	36.6	35.0
USSR	5.9	22.1	21.5	27.4	20.1
Raw materials, fuels and materials					
Total	55.2	52.8	43.1	48.7	54.0
USSR	48.4	48.8	63.8	69.9	78.0
Foodstuffs and raw materials					
Total	34.7	22.1	14.8	8.8	5.8
USSR	44.6	26.8	13.0	0.8	0.6
Industrial consumer goods					
Total	3.7	3.4	8.5	5.9	5.7
USSR	1.1	2.3	1.7	1.9	1.3

From the above data a number of interesting facts can be deduced, for example:

i. Until 1980 there were no significant differences between the overall structure of Czechoslovak foreign trade and the structure of Czechoslovak-Soviet trade. However, following that year, two tendencies in Czechoslovak-Soviet trade developed constantly more emphatically: our exports show a priority growth in the group of machines and installations and a relatively permanent decline in the group of raw materials and materials; with respect to Czechoslovak imports, the share of raw materials and materials grows emphatically and the share of machine and installation imports remains behind in comparison with the overall volume of imports.

ii. In the long-term column the decline of the significance in the mutual trade involving foodstuffs and raw materials required for their production is emphatically noted from 1948. With respect to Czechoslovak imports, this is a permanent process; in exports this group of products makes it possible to note

a certain slight increase after reaching a minimum value at the beginning of the 1970's.

iii. The second "strongest" group of products in our exports to the USSR--industrial consumer goods--manages to generally maintain its position within the structure. Thus, with its high active balance, it represents the principal source of funds to equalize the passive balance incurred in the group of fuels, materials and raw materials, along with the group of machines and installations.

The fundamental source of dynamics in the mutual trade from the standpoint of the structure was formed by the growing volumes and value of fuel, raw materials and materials imports and the rising entitlements for the formation of funds to cover their costs through the export of products of our processing industries. This is documented, among others, by the fact that our exports to the USSR in recent years account for about 70 percent of the overall active balance in our balance of trade with respect to the group of machinery and installation products, consumer goods, ceramics products and building materials.

#### Fuels, Raw Materials and Energy

The assurance of imports of fuels, raw materials and energy has a significance for us whose magnitude it is difficult to evaluate with finality. This was particularly emphatically underscored in the 1970's, when the world economy was dealing with great difficulty with the results of the energy and raw materials crisis, particularly with two "oil shocks" which occurred in 1973-1974 and in 1978-1979. Today it is already adequately known that the methods which were adopted for the creation of contract prices between member countries of CEMA, the results of the sharp rise in world prices were substantially mitigated for these nations. Simultaneously, some of these results were deferred to subsequent periods. However, it must be added that for a long time the Soviet Union delivered petroleum, energy and other raw materials to Czechoslovakia and the other CEMA member nations at much lower prices in comparison with those existing on capitalist markets.

In the broad compendium of mutually worked-out and solved intentions involving collaboration I would like to dwell particularly on the cooperation involved in assuring Czechoslovak requirements in basic energy and raw materials, from the point of mutual exchange.

As early as the mid-1950's it was clear that these questions could not be solved by pure bartering of goods. Czechoslovakia was the first among the CEMA nations in which this recognition resulted in the conclusion of the first intergovernmental agreements with the USSR of this type in a given sphere within the practice of CEMA. Specifically, these were agreements on cooperation in the area of nonferrous and ferrous metallurgy, dated 1960, and covering the development of petroleum extraction in the USSR with the goal of increasing its delivery after 1970 to Czechoslovakia (signed in 1966). The principles upon which cooperation was based can actually be characterized as follows: Czechoslovakia delivered machinery, installations, transportation equipment and materials for the development of appropriate branches on credit

to the USSR which was paid for, including interest, in raw materials. Deliveries of raw materials were guaranteed for a period of 20 years. The obligations which the Soviet side thus took on were fulfilled honorably and are being so fulfilled thus far. It is necessary to add that the listed conditions were extraordinarily advantageous for Czechoslovakia and could not be repeated.

A similar agreement covering cooperation in the building of the gas pipeline on Soviet territory followed in 1968 and after that a number of agreements, concluded on the basis of the "comprehensive program," were also concluded, including, for example: construction of the gas pipeline from Orenburg to the western border of the USSR ("Soyuz") and the Kiyembayevsk Combine for the extraction and processing of asbestos, agreements covering the production of ferrous alloys, cooperation in construction of the 750-kv high-tension transmission line, cooperation in construction of the Khmel'nitsy Atomic Energy Plant and others.

An orientational depiction of the extent of cooperation in the area of fuels and raw materials between Czechoslovakia and the USSR and of its developments can be provided by the volume of our share within the framework of specific agreements (in millions of transferable rubles) in individual 5-year plans:

<u>1960-1965</u>	<u>1966-1970</u>	<u>1971-1975</u>	<u>1976-1980</u>
287	270	346	600

A significant growth is recorded in the years of the upcoming 5-year plan (1986-1990). Czechoslovakia will participate in the construction of the Krivoy Rog Combine for processing iron ore raw materials and in gas industry projects on USSR territory. Through joint construction of the gas pipeline from Yamburg in Siberia to Uzhorod will assure increased deliveries of this valuable energy and chemical raw material beginning in 1990. In the case of these new activities, on the basis of experiences gained, the principles of specificity and fractional cooperation are being emphasized. Among others, this also means that

i. appropriate deliveries of raw materials are directly proportional to the extent of participation and the share of overall investment costs;

ii. the material content of participation is strictly tied to assuring the development of the appropriate capacity, the necessary auxiliary objects and municipal services in the entire structure, that is to say including technology, construction and earth work, materials and assembly work.

As has been stated, from the strictly structural viewpoint, the covering of our requirements in fuels and raw materials was the principal motivating element in the mutual barter of goods in the long term. The extrapolation of this development over a longer time line is not possible. It has its limitations in the broadest position inherent in the limitations of extensive economic development.



In the upcoming period the development of intrabranh and intrasector division of work with a concomitant interchangeability of products involving the appropriate branches and sectors must become the carrier of the dynamicism in Czechoslovak-Soviet economic relations.

During the period of the 40th anniversary of the defeat of fascism, in the jubilee year of the liberation of our country by the Soviet Army, the fact that the Soviet Union continues today, as it did 40 years ago, to be the basis of the stability of our economic development comes to the forefront. The 12th Session of the Central Committee of the CPCZ stated: "The vitality of economic cooperation with the Soviet Union need not be stressed. Life itself proves it." These words are also underscored by the above brief characterization of Czechoslovak-Soviet trade.

5911

CSO: 2400/482

29 July 1985

## CZECHOSLOVAKIA

## GOALS, TASKS OF FINANCIAL AND CURRENCY POLICY IN 1985

Prague FINANCE A UVER in Czech, No 1, 1985 pp 1-8

[Text] This year the Czechoslovak economy has entered the final phase of the Seventh 5-Year Plan, the phase that will decide at what level of quality the planned tasks for this period will be fulfilled and the type of base that will be formed for further economic growth in the next 5-year plan.

The evaluation of national economic development since the beginning of the current 5-year plan that took place at the 12th CPCZ Central Committee Plenum indicated that positive results have been achieved while the economy has been gradually adapting to complex domestic and foreign economic conditions. The acceleration of this process in the final years of the 5-year plan has increased the urgency of intensifying the entire capital replacement process as well as the need to increase its practical in order to raise our national income and standard of living.

To meet the objectives of the economic policy of the CPCZ and to fulfill the tasks of the state plan it is essential to more actively utilize all available financial mechanisms and to focus them still more consistently on introducing efficiency throughout the national economy. These requirements substantially strengthen the role, but also the responsibility, of financial and credit offices for the successful fulfillment of the plan for this year and for the entire 5-year plan.

With a view to the above considerations, preparation of the national economic plan this year included a further upgrading of cooperation between planning and financial offices, and a strengthening of the interrelationships between the state plan, the state budget, and the currency plan so as to strengthen the orientation of the economy towards accelerating the intensification of the capital replacement process through the more consistent utilization of research and development in conjunction with the resolutions of the Eighth CPCZ Central Committee Plenum.

The concept underlying the national economic plan is based on the goals and tasks established in the Seventh 5-Year Plan, the resolutions of the 12th CPCZ Central Committee Plenum, and the performance of the economy in the first 4 years of the current 5-year plan. Economic development to date has confirmed the correctness of the adopted economic strategy and the correctness of the concept of the Seventh 5-Year Plan and its currency and budgetary projections.

The economic results obtained last year confirmed that we are meeting with success in accelerating the growth of the economy while at the same time strengthening economic and monetary equilibrium. The state plan and the related culminating financial plans for 1985 have therefore been based on the assumption that the pace of resource formation and economic growth can not only be maintained, but also improved upon by exploiting our underutilized capacity and potential so that the established growth rate and economic proportions assure compliance with the basic objectives and tasks of the overall Seventh 5-Year Plan.

The fundamental characteristic of the state plan as well as of the state budget and currency plan is that they assure additional economic growth primarily by the more complete utilization of intensification factors, and by increasing the efficiency and productivity of labor.

In conjunction with the above strategy an increase is projected in national income of 3.2 percent, which should be greater than the growth of public product (1.9 percent). This necessitates an additional substantial reduction in the investment, fuel and power, raw materials and material intensiveness of economic development, and increased labor productivity throughout the economy.

The above necessity means that it will be necessary to proceed further in increasing the consumption efficiency of fuel, energy and metals, to increase labor productivity by 4.7 percent, with 90 percent of this increase coming from adjusted values added, to further reduce investment as a percentage of utilized national income while at the same time increasing the efficiency of capital investment and of inventory utilization.

An essential precondition for the complete implementation of intensification factors is the broader incorporation of the Czechoslovak economy into the international division of labor. In line with this an increase of 4.7 percent in foreign trade with socialist countries is projected. Increased trade turnover with nonsocialist countries is also anticipated. Improved exchange relations should also contribute to strengthening our external economic equilibrium.

Improved utilization of intensification factors should be reflected in a corresponding increase of 9 percent in the profits of economic organizations.

The intensification process anchored in the state plan, state budgets and currency plan is being focused on the assurance of an increase in personal consumption in excess of the objectives of the Seventh 5-Year Plan, and the assurance of further development in public consumption. An increase in personal consumption of an additional 2.2 percent is now being forecast, for instance, in comparable prices.

A state plan formulated in this way creates the positive preconditions for further strengthening economic equilibrium and currency stability, a situation that will be reflected both in the state budget and the currency plan.

Budgetary and financial policy, in accordance with this, is being focused on achieving a permanent and comprehensive turnaround towards intensified economic

development through a systematic increase in efficiency and quality throughout the economy, and further enhancing the equilibrium of external economic relationships mainly by increasing their efficiency and strengthening the export capabilities of the economy, as well as strengthening financial equilibrium. The above tasks have been carried out while keeping the state budget fully balanced.

As in recent years, considerable attention was devoted this year to improving the unity of purpose of budgetary and bank currency policy and to setting up the requisite links between the state budget and the currency plan.

The 1985 currency plan is based on the economic results of 1984 and is aimed at meeting, and hopefully exceeding, the goals and objectives of the Seventh 5-Year Plan under the conditions of 1985, the decisive year in terms of fulfilling the goals outlined by the 16th CPCZ Congress.

In line with these objectives, loan policy and foreign currency management are designed to maintain and further strengthen current positive trends in economic growth, to actively support and accelerate the intensification process and improve domestic and foreign currency equilibrium. In this way the State Bank can use its resources to provide maximum support for the basic objectives and trends of economic policy.

The bank will further support the intensification process by directing loans and foreign currency resources to the acceleration of research and development, increased investment efficiency, and speed up the growth rate of production and the optimization of end usage in conjunction with the demands of society. At the same time a further increase must be achieved in the pressure exerted by credit, interest rates and foreign currency mechanisms on the utilization of underutilized economic capabilities, and particularly in making capital investment more effective and improving inventory utilization.

This more assertive bank posture in supporting progressive trends will, on the other hand, require it to exert more consistent pressure to suppress instances of inefficiency, which retard and slow down the intensification process.

For the above reasons we consider the further strengthening of equilibrium in foreign relations to be a top priority, and have included it as such in this year's currency plan.

The currency plan, in addition to facilitating the optimization of foreign trade and foreign currency relations, depends on a planned increase in the pace of commercial exchange with socialist countries. This is critical in order to maintain current economic growth rates and ongoing structural changes. Meeting export delivery targets in terms of the requisite structure and quality of merchandise for the USSR is, in turn, the most critical aspect of the above goal, both because the maintenance of equilibrium in our balance of payments for 1985 depends on this, and because the achievement of the planned pace of imports from the Soviet Union is also tied to our export performance.

The currency plan for this year also projects the fulfillment of the overall target for reducing our net indebtedness in hard currencies, as established in

the Seventh 5-Year Plan. We have therefore planned for the formation of sufficient foreign currency resources to cover necessary imports and other foreign currency expenditures as well as payments on medium term bank loans undertaken in the Sixth 5-Year Plan.

In terms of foreign relations with nonsocialist countries the state plan and the currency plan have aimed, in the previous years of the current 5-year plan, at gradually reviving equilibrium and reducing foreign indebtedness in hard currencies. This objective has been fulfilled successfully so far. The foreign currency position of the state in external relations has been improving systematically, and interest rate charges have been declining. Banks and foreign trade enterprises have been making their payments on time, meaning that the conditions exist for meeting the targets for reducing net indebtedness to nonsocialist countries that were set up for the entire Seventh 5-Year Plan.

At the same time, however, the importance is increasing of the qualitative aspects of the revival and strengthening of foreign economic equilibrium. This requires assuring an optimal structuring of our claims and commitments with our foreign trade partners, and assuring their quality and the return they provide to both Czechoslovak banks and foreign trade enterprises.

The process of gradually reducing foreign hard currency indebtedness is an important political and economic task which must be pursued persistently, even in view of the current international economic and currency conditions. The complexity of this situation will continue to be evident in substantial fluctuations in the exchange rates of the major currencies of the capitalist countries, in high interest rates, in the unbalanced occurrence of recoveries in capitalist economies, and in a continually difficult economic and financial situation for third world countries. We must also continue to anticipate instances of politically motivated pressure in the international economic sphere on the part of certain capitalist countries.

Although we want to purposefully meet our targets for reducing foreign hard currency indebtedness, we also want to continue to develop bilaterally favorable credit relations with foreign banks. The timely payment of our obligations creates the opportunity for the further development of bank loan operations, which may be used to accelerate the intensification process, improve the efficiency of foreign noncommercial exchanges, while fully respecting the principle of foreign currency repayability.

In line with the resolutions of the executive level CEMA economic conference our bank will continue to give priority to the development and improvement of its relations with the International Bank of Economic Cooperation and the International Investment Bank and will cooperate actively in improving the credit granting procedures of these banks, a project connected with the strengthening of the collective currency - the convertible ruble.

Loans repayable in foreign currency are being used to a greater and greater extent to develop effective export products on the payback principle, as well as to implement measures to reduce import dependency. This has been facilitated by a relaxation in the conditions for granting these loans announced last year by this bank.

This modification involved stretching out the payback period for these loans from 2 to 3 years, and reducing the required down payment from 30 percent to 20 percent with the possibility of reducing it further if a faster payback period can be negotiated. The above changes have had a positive impact in the sense that, in the first half of 1984, 89 new projects were approved, as opposed to 49 approved projects in the first half of 1983. While in the first half of 1983 Kcs 693 million were authorized in loans repayable in foreign currency, the value of the loans approved during the same period of this year was Kcs 1.363 billion. The currency plan for this year leaves sufficient opportunity for the further development of this foreign currency support for the ongoing development of export products as well as measures to more efficiently acquire imported inputs.

Based on positive experiences with more favorable conditions for the granting of loans repayable in foreign currency, the bank is preparing for the Eighth 5-Year Plan by further refining the differentiation in the repayment of foreign currency repayable loans and in the establishment of down payments which take account of the specific conditions of certain sectors, mainly engineering.

To meet the targets established for this year in the state plan and the currency plan it will be necessary to be more successful in eliminating shortcomings which have to date reduced the efficiency of foreign commercial transactions, and to see to it that individual economic production units [VHJ] and enterprises adopt specific measures to increase quality and technical sophistication, and to improve innovation, all of which will increase the prices obtainable on international markets for our exported goods. Achieving a turnaround in the efficiency of foreign transactions has become a key question in plan targets related to foreign relationships. The State Bank is helping in this area by freeing up foreign currency resources and by granting loans.

Another area that is becoming the object of the bank's currency policy and currency plan is that of the mobilization of credit resources and the providing of credit in the domestic economy that is desirable from a currency perspective.

The most important positive occurrence from a currency point of view is that the increase in the credit requirements of the economy in the 1985 currency plan has come solely from increases in domestic credit resources, which now amount to Kcs 22.2 billion. Resources from the general population account for Kcs 15 billion of these resources, or 68 percent of the total. This is based on the assumption that out of an increase in monetary incomes of the population of 3.8 percent, 3.5 - 3.7 percent will be saved.

The basis of this positive development in individual savings is the consistent orientation of economic and currency policy to assuring stability in the purchasing power of the currency and to fully meeting the requirements of the general population with an appropriate assortment of goods and services. In line with these requirements the bank is directing its credit policies at the fulfillment of consumer goods delivery targets by industrial enterprises in the proper product mix, improving the structure of trade inventories and adding to them, and on the development of services in line with the needs and requests of workers.

The bank's currency policy, in line with the currency plan, is focused during the Seventh 5-Year Plan on gradually slowing down the pace at which loans have been granted, and on adapting the structure of these loans to economic growth and the development of basic national economic indicators. By doing so it is pursuing the objective of actively facilitating the use of loans to strengthen monetary equilibrium and currency stability.

In line with this strategy of bank currency policy the currency plan for this year mandates the further strengthening of relationships with the enterprise sphere, which has been incorporated into a further relative slowing down of loans in relation to the growth of national income. While the planned rate of increase of national income is projected at 3.2 percent, the increase in loans to the enterprise sphere is slated to be only 3 percent (including special purpose credit reserves). At the same time to aid in the fulfillment of plan targets an increase is projected in operating loans of Kcs 8.5 billion and in investment loans of Kcs 2.2 billion. The reason for adhering to this positive trend in loan volume is to encourage VHI and enterprises to increase the use of internal resources to finance their own requirements.

The plan objective of further reducing the relative increase in loans is based on the assumption that underutilized resources will be mobilized, that organizational management of working capital and especially inventories will be improved, and that loans will therefore be better utilized. The draft of the currency plan is based on a request that excessive inventories be utilized. These have been accumulating in recent years at industrial and construction firms and now amount to Kcs 7.5 billion. The plan, therefore, is calling for an increase in the inventory turnover period at industrial and construction enterprises of 3.1 days.

The CSSR Government last year discussed the inventory problem several times and approved, subject to analyses and recommendations of central agencies, a number of measures to improve the efficiency of inventory management, as well as establishing for 1984 priority tasks for inventory reduction in addition to the targets contained in the national economic and currency plans.

Improving the efficiency of inventory management is an important source for accelerating the intensification process. Inventory utilization within the economy has, however, been characterized so far by serious problems and shortcomings caused by the failure to fulfill planned targets.

At present the value of inventories has reached about Kcs 475 billion, which is roughly equivalent to net annual national income. Measures adopted in the past 2 years have reduced the rate of inventory growth and improved their utilization. This improved concern with inventories has been evident in the fact that in 1983 inventory increases were 25 percent lower than in 1982, a trend that continued into 1984. The priority tasks for inventory utilization were not met, however.

A one-time culling of inventories last year found excessive and unnecessary inventories in the amount of Kcs 8.5-9 billion. Now enterprises must fulfill the measures which they have adopted to utilize more fully inventories, as well

as develop the conditions that will prevent the formation of inventories of this type.

Based on analyses of inventory management the government has adopted, in connection with the approved state plan, a number of additional specific and systemic measures. These are contained in government resolution No 308/1984. Moreover, the enterprise sphere has been given the task of evaluating the results of stage 4 in the strengthening of inventory standards and, in the event that these standards were not improved sufficiently, to set up at the sectoral level a strategy for assuring the planned acceleration of inventory turnover.

Operating loans in industry and construction will be used mostly to support the development of desirable inventories, above all saleable inventories, such as those consisting of products developed through R&D efforts, inventories of fuel and imported raw materials, inventories related to the expansion of the export capability of production, and the desirable growth of noninvoiced labor and deliveries. An increase in operating loans is also included in the currency plan to finance an increase in working capital for agriculture, for local production and for services.

With regard to the evolution of investment loans the decrease in their growth rate has been influenced by the overall reduction in the growth rate of capital investment. In addition to this year's planned increase in investment loan volume of only Kcs 2.2 billion there will be payments on previously granted loans in the amount of Kcs 27.8 billion and the granting of new investment loans in the amount of Kcs 30 billion.

Moreover, the bank has incorporated full support for R&D into the currency plan for this year as well as into its credit and foreign currency strategies.

In conjunction with the resolutions of the 8th CPCZ Central Committee Plenum, the bank began last year to expand the scope of interest rate preferred loans for increasing the efficiency of investment as well as investments connected with the introduction or increase in production of the final output of R&D efforts. This has made possible the drawing of appropriate loans for single purpose machinery developed with internal resources for the internal production base, and has introduced new loans for technical development projects. The utilization has also expanded of interest rate spreads for investment credits in connection with the structure of investment, with the objective of supporting investments with a high percentage of machinery involved and in connection with the level of utilization of machinery capital assets.

In addition, new investment credits have been designated this year primarily to support effective investment projects directed at accelerating the implementation of R&D, and especially for the implementation of priority projects of the state plan, automation and robotization of production procedures, the development of the fuel and power base, the development of the agro-food complex and the modernization of the housing stock.

In conjunction with changes in payments for investment related work and deliveries implemented under Decree No 37/1982 Sbornik, the role of the State



Bank has increased in granting loans for capital investment. This means that construction and assembly firms are gradually developing a need for credit at projects that are under way because under the new conditions they can submit invoices only for complete and finished invoiceable units. Although in terms of finance this means the replacement of previous payments from investors with a loan from the bank, under this system the qualitative aspect of work performed related to such a credit becomes of some importance. It is primarily a matter of seeing to it that the above change in financing not be implemented automatically but that such loans assist in the introduction of measures designed to increase the efficiency and quality of capital investment. The bank, therefore, will tie the granting of a loan to performance in the completion of a given project on schedule, an increase in work quality, compliance with budgeted costs, and a reduction of uncompleted work.

Last year there was a one-time increase credit granted for noninvoiced work and deliveries of Kcs 8.4 billion at the same time that investment loans declined. In this way the bank assured a transition to this new form of invoicing. This year, however, the sole objective will be to use these expanded credit opportunities to exert more effective pressure on the qualitative aspects of capital investment.

Tasks directed at facilitating a relative slowdown in the rate of increase of credit are contained in the 1985 currency plan and are worded so as to develop the basis for fulfilling currency related tasks for the entire Seventh 5-Year Plan.

In line with projections in the currency area for the Seventh 5-Year Plan we have been successful so far in reducing increases in credit. We can therefore assume that the volume of operating and investment loans (after allowing for pricing and methodological influences not provided for in the plan) will increase over this period by about Kcs 80.4 billion. The rate of increase in credit for the Seventh 5-Year Plan thus has reached 119.8 percent, which is substantially less than the Sixth 5-Year Plan, when this figure was 143.6 percent.

The tasks established in the state plan, state budget, and currency plan are rigorous in terms of mobilizing the resources and underutilized capacities of our economy, but are feasible and fulfillable. There is no need to deny, however, that their fulfillment will require more energetic efforts in the elimination of existing shortcomings which have so far unnecessarily slowed down the development of the economy and reduced the efficiency with which the resources that have been formed have been utilized.

To assure the main tasks and objectives of the state plan and the currency plan and to eliminate existing shortcomings the bank is systematically focusing its credit and foreign currency policies and the resultant credit and foreign currency strategies on the assurance of the main tasks and objectives of the state plan and the currency plan and the elimination of existing shortcomings. The foundation of this policy is the implementation of a differentiated approach to the granting of loans and foreign currency resources that is tied to the effectiveness of their utilization.

In implementing this policy, the bank is placing emphasis on active support with credit and foreign currency of the implementation of all aspects of intensification, with particular emphasis on the accelerated implementation of R&D, robotization, automation, etc., with priority given to the development of export production. At the same time, however, interest rate pressure is being intensified as are interest penalties for inefficiency and shortcomings in organizational work.

The greatest attention in the implementation of an assertive and differentiated loan and foreign currency policy is currently being focused by the bank in those areas of the economy which are critical for increasing the overall efficiency of the capital replacement process: R&D progress, effective foreign relations, improved inventory utilization and an increasingly effective investment process.

The strategy of the bank's currency policy that has been applied during the current 5-year plan is in full accord with the orientation of overall economic policy and with the acceleration of the intensification process. For this reason, in the final year of the 5-year plan the bank will base its activities on the principle that has been applied to date of an assertive and differentiated domestic and foreign bank currency policy. There will be only isolated changes and improvements in credit procedures, directed at assuring the resolutions of the 11th and 12th CPCZ Central Committee Plenums, and by way of responding to changes in the procedures for invoicing investment work and deliveries, etc.

The gradual refinement of the conditions of bank currency policy in the first years of the Seventh 5-Year Plan and their overall improvement has contributed to their stabilization, which in turn has led to the current situation in which the entire banking network applies much more consistently and knowledgeably principles of interest rate and credit differentiation. These tools are being used more and more to support the development of progressive products and are being tied more consistently to the rectifying of shortcomings.

The assertive support through credit of the intensification process has been evident, for instance, in the fact that at present roughly 25 percent of new investment credits are granted, under preferential interest rate conditions, for modernization, efficiency enhancement and other projects with a rapid payback period and to those organizations which apply the results of R&D to increase labor productivity, conserve power and raw material resources and to obtain increased amounts of foreign currency.

The total amount of investment and efficiency enhancing loans for progressive investment projects at preferential rates drawn upon for the first 3 quarters of 1984 reached Kcs 2.848 billion, representing an increase of 8 percent over the same period in 1983, even though the total resources granted through investment loans declined over the same period by 15 percent.

The active impact of loans on an increase in economic efficiency is also evident in the fact that we have been successful in gradually stabilizing and limiting the number of undesirable loans granted to cover shortcomings in

inefficiently managed organizations and that, despite increased credit pressure, we have been successful in reducing over the same period of time bad debts by about Kcs 8 billion. Nevertheless, we consider the extent of economic shortcomings, which result in the inability to pay off loans, to still be too high.

Even though the bank has met with a certain amount of success in applying an assertive and differentiated policy, it cannot be denied that there remain some problems and shortcomings in its implementation. The drawn out resolution of conflicts in enterprise plans at the beginning of the year reduces the efficiency of loans in the initial months of the year. Possibilities for the active support through loans of the implementation of R&D and of supporting, through foreign currency policy, of contributions for the payments balance have not as yet been fully utilized. Despite the tightening that has been implemented we have not yet been successful in mastering the uneven drawing upon of credit throughout the year and in individual quarters, or to increase pressure on evenness in production, shipping and invoicing. In some instances the granting of loan assistance and the imposing of sanctions is not always energetic enough or effectively enough incorporated into the introduction of modifications of organizational shortcomings or with the monitoring of the effectiveness of the corrective measures.

The bank is therefore working on further improvements in the implementation of techniques for bank currency policy and the application of bank economic mechanisms in these main areas:

- in conjunction with the resolutions of the 8th CPCZ Central Committee Plenum, to expand the participation of koruna and foreign currency repayable loans in the acceleration of the implementation of R&D projects and progressive investments;
- in conjunction with the resolutions of the Eleventh CPCZ Central Committee Plenum to improve the credit support of projects to improve the efficiency of the agro-food complex;
- the more consistent utilization of foreign currency resources to assure tasks related to the balance of payments, to increase the efficiency of foreign commercial transactions, to reduce foreign indebtedness and to utilize more effectively imported machinery and materials;
- the granting of foreign currency resources will be approached on a completely differentiated basis according to achieved export performance and the effective utilization of imports;
- the bank will become more involved in searching out specific contributions to the payments balance; it will utilize fully in this regard the expanded possibilities for the granting of loans repayable in foreign currencies;
- as early as the formulation stage of the plans of V&H and enterprises the role of the bank will increase in the effective utilization of material and financial resources and the balanced distribution of planned production and

marketing targets as a starting point for increasing the effectiveness of bank related economic mechanisms;

-- the level of differentiation should be increased for the granting of operating and investment loans and for work performed with loans;

-- another objective is achieving greater efficiency in capital investment and orienting it more consistently towards providing contributions to the balance of payments; the economic objectives of the new decree concerning invoicing for investment work and deliveries will be consistently implemented;

-- the bank will exert some control through loans on the comprehensive and balanced fulfillment of updated tasks in the development and utilization of inventories and on the thorough weeding out of inventory and utilization of the culled merchandise;

-- the bank will tighten credit procedures against organizations which do not attempt to smooth out the flow of their inventory accumulation, sales and invoicing;

-- the bank will pay particular attention to preparations for comprehensive analyses with the objective of contributing to an objective assessment of organizational performance, including performance on priority tasks.

The results achieved in the economy in recent years have indicated that a gradual shift is under way to an intensive path of future development. The state economic plan, state budget and currency plan for this year have developed a positive starting point and the basis for fulfilling the tasks of the entire 5-year plan. Now it is a matter of gaining the maximum possible support for these positive trends from both central offices and from the enterprise sphere, and developing them further at the same time that all negative phenomena slowing down the embarked upon path of intensification are systematically suppressed.

Our common efforts must be focused in this direction so we can develop the optimal conditions for embarking on the upcoming 5-year plan.

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CZECHOSLOVAKIA

DEMANDING TASKS OF FEDERAL BUDGET IN 1985 OUTLINED

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Text Financial and budgetary policy for 1985 is based on the goals of economic and social policy outlined by the 16th CPCZ Congress and further specified at subsequent CPCZ Central Committee Plenary Sessions, and principally on the strategic objective of gradually shifting our economy to an intensive development path. We have recently been successful in reviving the growth rate of our economy by improving qualitative indicators, and making better use of intensification factors, while at the same time strengthening domestic and especially external economic equilibrium. It is essential to improve upon these positive trends in 1985 so as to fulfill the objectives of the Seventh 5-Year Plan, especially in terms of resource formation, increased efficiency, and managerial effectiveness.

The Federal Assembly has approved legislation for the state budget of the Czechoslovak federation. All indicators have been already converted to the wholesale prices valid as of 1 January 1985. In this article I am only calling attention to this fact, because budgetary management in 1985 will take place in terms of these approved indicators. This will, however, not influence the growth rate, only the absolute numbers.

Modification of wholesale prices are part of the final stages of the updating the prices of fuel, power, and raw material inputs, those in the related sectors of the processing industry and prices in the electrotechnical industry and in general engineering. These modifications in wholesale prices have resulted in an overall increase in these prices of an average of 0.6 percent throughout the economy.

Economic development in 1984 proceeded in line with the basic objectives of the state plan and budget. Goals in the main economic sectors were met and in some cases overfulfilled. Priority tasks established by CSSR Government resolution for the purpose of exceeding state plan indicators on the basis of the 10th CPCZ Central Committee Plenum contributed significantly to this performance. The more important positive results of this include a further acceleration in resource formation in the economy in comparison with 1983, a gradual expansion of the process of intensification, and a further strengthening of equilibrium in foreign economic relations. Following a successful 1983, the preconditions continued to be developed in 1984 for the fulfillment of the Seventh 5-Year Plan.

It has been estimated that gross formed national income increased by about 3.2 percent in 1984, which is in line with the priority task established in the state plan. The planned production volume for the main sectors of the economy was exceeded.

Industrial production increased by 3.7 percent, exceeding its planned target by Kcs 7 billion, thereby making it possible to exceed delivery targets for all major customers.

Gross agricultural production is estimated to have increased by 1.4 percent, exceeding planned revenues by Kcs 4.9 billion, most of which was accounted for by livestock production. Likewise, the target volume for construction work performed by construction organizations was exceeded by about Kcs 1 billion.

We were also successful in continuing with the positive trends established in 1983 in the areas of costs and profit formation. The profit plan for 1984 was exceeded by about Kcs 12 billion. Costs are estimated to have been a smaller percentage of output than projected by either the plan or the established priority task. This trend has been influenced positively by the increased incentives that have been offered to the enterprise sphere to reduce material costs and increase adjusted value added. These incentives have mainly been in the form of mechanisms for allocating wage resources.

In inventories as well, positive trends in their utilization are expected to continue. Should the plan for inventory development be fulfilled, including the priority task established to free up reserves and rectify the unplanned excess inventories that built up in 1983, industry and the construction industry will reduce inventories by Kcs 5.3 billion and speed up inventory turnover time by 5.7 days.

Despite the number of positive trends in economic and financial development several long term problems continue to plague the economy. Their resolution, moreover, is proceeding more slowly than required by current needs. These problems exist mainly in the area of implementing structural changes in production and increasing its technical sophistication, in capital investment, in the practical implementation of the results of R&D, in the efficiency of foreign exchange, in the utilization of production assets, in supplier-consumer relations, and in satisfying the demand of our population for the required structure of goods.

These problems, including the low prices received for goods delivered to the domestic and foreign market as evidenced by the ratio of retail to wholesale prices, the differential export indicator and the evolution of exchange relationships between exports and imports all combine to reduce the performance level of the national economy, and are therefore reflected in financial developments and in the state budget.

Preliminary estimates indicate that the budget will be balanced at the end of 1984 in spite of the ongoing pressure to improve the structure of revenues and expenditures for the entire budgetary system.

The basic focus of financial policy for 1985 remains the exertion of pressure to increase efficiency and work quality, implement a permanent and comprehensive turnaround in the direction of intensive economic development, further expand the equilibrium of foreign economic relations by increasing their effectiveness and increasing the export efficiency of our economy, improving financial equilibrium and assuring that the state budget is balanced.

Special attention must be paid to speeding up the practical implementation by R&D results and to increasing resource management in all sectors. In particular, fuel, power, metals and raw materials must be conserved to the maximum extent. In line with the 10th and 11th CPCZ Central Committee Plenums industrial and agricultural production must concentrate on the effective satisfaction of demand in specific areas and on adding more value to their production. Capital investment must be directed more closely and pressure must be increased to optimize inventory development. All of this was emphasized at the 12th CPCZ Central Committee Plenum.

The state budget and financial plan for 1985 assure the implementation of the above tasks and objectives in various sectors of the economy.

Financial resource formation in economic organizations depends mainly on reducing overall costs, especially material costs excluding depreciation and nonmaterial services. On the other hand, it is essential to further tighten the conditions of organizational access to monetary resources with coordinated measures of financial, price, credit, and wage policy.

The state budget for 1985, as the basic mechanism of financial policy, continues to restrict economically unjustified redistributions and subsidies, utilizes a transfer system to assure the proportional development of financial relations, assures that budget revenues and expenditures are balanced, and maintains tight controls on expenditures.

Investment subsidies from the state budget are provided only for projects significant for the development of the entire economy (in the fuel and power, transportation, forest and water management, and agricultural sectors). In contrast to past years, the financing of investments by economic organizations will assume that in 1985 depreciation will remain at full value in the industry and construction sectors, which will further limit the distribution processes between these 2 sectors and the state budget.

An active role is being emphasized for noncapital subsidies for the planned development of livestock production in agriculture. Support is also continuing for producers and users of robots. Measures remain in place that are designed to conserve metals, fuel and power, to facilitate the production of state of the art products, and especially electronic components. Non-capital subsidies are monitored on an ongoing basis, in cooperation with other interested offices, to determine if the state objective is being fulfilled, price relationships are being maintained and that the integrity of the production and financial plans of the organization are being upheld.

Ongoing attention is being devoted to the assurance of the planned development of inventories. The 1985 plan in this area is in line with the objectives of the Seventh 5-Year Plan and projects a speeding up of the inventory turnover period in industry and construction by 1.1 days in addition to the target contained in the plan. The financial consequences are being worked out of the reduction in culled, nonuseable inventories mandated by CSSR Government Resolution No 74/1984 (including drawing on the resources of the reserve fund to cover up to 100 percent of losses from the physical liquidation of non-useable inventories culled in 1984).

Financial and budgetary policy for 1985 contains the following measures, among others, in line with the strategy for improving the planned management system of the national economy:

-- In the area of R&D, as of 1 January 1985, an updated decree has been drafted by the Federal Ministry of Finance, No 163/1980, Sbornik, concerning the financing of noninvestment expenditures for R&D. This decree was based on the resolutions of the Eighth CPCZ Central Committee Plenum and the Main Guidelines for the Further Implementation of the Set of Measures. The objective is to develop the conditions for the more efficient and flexible financing of R&D. This involves the principle, for instance, that R&D projects be financed by the organization that wants to implement the results. Also being discussed is that the financing of R&D projects should be handled mainly by the economic sphere with its funds for technical development, any balances of which would be fully transferrable from one year to the next. The possibility will also exist to supplement these funds with profits formed above any established norms. In the interest of improving conditions for a closer tie between basic research and production, forms for merging financial resources have been modified to include scientific-production associations;

-- The establishment on a trial basis of an investment fund will be extended to all organizations with the exception of the ministries of construction, which already manage a development fund, in conjunction with an approved change in the classification of construction projects and the termination of the previous limit on budgeted costs for construction projects (2 million, 5 million Kcs). The experimental linking will also be expanded of profits from domestic operations with those from foreign trade to all organizations of the Federal Ministry of the Electrotechnical Industry.

-- In order to resolve the structural problems of economic development and strengthen central resources for assuring planned expenditures and balance throughout the entire budget system for 1985 a supplementary transfer from profits will be introduced to draw upon and redistribute temporarily uncommitted financial resources in the sectors of industry and construction.

-- The authority and responsibility of the enterprise management sphere will be expanded by introducing an increased limit on the maximum remaining balance in a VHJ reserve fund not only for the general engineering ministries, the ministries of industry of the CSR and SSR, in foreign trade enterprises, but also in biological service VHJ in agriculture;



The goals and objectives of financial and budgetary policy for 1985 are contained in the planned tasks as follows:

-- total profits for the CSSR in 1985 will increase by Kcs 11.4 billion over 1984 figures, i.e., by 8.7 percent. The increase in profits domestically is to be achieved by reducing overall costs (accounting for 80.7 percent of the increase) and increasing output (accounting for 23.5 percent of the increase). Costs as a percentage of output are to decline by 0.9 percent. In specific areas, material costs excluding depreciation will decline by 1.2 percent, wage costs by 1.0 percent, financing costs by 1.1 percent. Depreciation as a percentage of output is to increase by 3.6 percent;

-- returns should be as follows, in comparison with expected 1984 results; in terms of total costs return should increase by 6.9 percent; in terms of adjusted value added by 3.4 percent, and return on production assets should increase by 4.9 percent.

-- the final balance of the relationship between state economic organizations (SHO) and the budgetary system (excluding turnover taxes and domestic market differences), which is used to satisfy public requirements, will amount to Kcs 98.9 billion in 1985, which represents an increase over expected 1984 figures of 5.9 percent.

-- Inventory turnover time should speed up by 3.1 days in industry and construction.

-- financial requirements for capital investment by state organizations will increase by Kcs 9.8 billion in comparison with 1984, reaching in 1985 a figure of Kcs 164.9 billion, 24.9 percent of which, or Kcs 41.1 billion, will be covered from the state budget.

-- Noninvestment expenditures for R&D will amount to Kcs 19.7 billion, Kcs 8.0 billion of which will be financed from the state budget. This is 4.2 percent more than in 1984, but the resources contributed by the economic sphere are increasing by 10.2 percent.

Economic organizations are the primary source of increases in real financial resources. In terms of evaluating the aggregate financial relations in our economy what is important is above all the strengthening of the relationships between the overall requirements of economic organizations and overall resources which they generate, from 57.5 percent to 55.2 percent. As a result, the financial contribution of economic organizations to society, expressed as the balance of actual resources and requirements, has increased by 8.3 percent (see Table 1).

The greatest part of this balance and its increase is realized through the state budget in the form of a transfers balance and subsidies to economic organizations.

Table 1.

Figures in Billions of Korunas

<u>Indicator</u>	<u>1984 Expected</u>	<u>1985 Before Adjustments</u>	<u>Difference 1985-1984</u>	<u>Index 85/84</u>	<u>1985 Adjusted</u>
Total SHO resources	215.47	220.11	4.64	102.2	219.68
Total requirements	124.33	121.42	-2.91	97.7	121.57
Balance resources and requirements	91.14	98.69	7.55	108.3	98.11

Throughout the economy, therefore, it is essential to organize effective measures that will minimize negative influences on resource formation. In the area of export designated production a maximum amount of attention must be devoted to assuring the quality of production, its technical sophistication and attractiveness to a foreign customer. In the commercial area it is essential to realize the higher quality and other advantages of our exported production in the form of higher prices of commercial parity.

Table 2 indicates the basic proportions implied by the distribution of profit and depreciation as the primary financial resources generated by the enterprise sphere.

Table 2.

<u>Indicator</u>	<u>1985 Proposed After Adjustment (billion Kcs)</u>	<u>Difference 1985-1984 (billion Kcs)</u>	<u>Index 1985/84 (percent)</u>	<u>Share (percent)</u>
Profit	143.42	11.36	108.7	62.8
Other resources for distribution	15.38	0.47	103.2	6.8
Capital asset depreciation	68.13	3.97	106.2	30.4
Total resources	226.93	15.80	107.5	100.0
Uses:				
Transfers from economic performance to state budget	114.18	19.98	121.2	50.3
Transfers from depreciation to state budget and national committee budget	2.35	-5.05	31.8	1.0
Transfers from profits to central supervisory offices	5.45	0.31	105.9	2.4
Remaining for the organization	104.95	0.60	100.1	45.6
Of which allocated to funds:				
To capital fund from profits	24.89	-5.09	83.2	11.0
To capital fund from depreciation and redistributed depreciation	65.77	9.01	115.9	29.0
To working capital	1.51	-1.42	51.5	0.7
To bonus fund	5.63	-0.30	92.9	2.5
To cultural and social services fund	3.92	-0.26	92.9	1.7

As this table indicates the total resources available for distribution in the economic sphere come from profits (62.8 percent of the total), capital asset depreciation (30.4 percent of the total), and other sources (6.8 percent of total). The other sources include subsidies from the state budget directly to resources for distribution (4.5 percent), subsidies from redistribution (2 percent) and the remainder is a percentage of category II profits of foreign trade organizations left for allocations to funds and subsidies from state funds.

Transfers to the state budget, to national committee budgets and for special bills account for 50.3 percent of total resources. The use of resources for allocations to the bonus fund is planned at a level determined by the wage code regulations and by the allocation of wage resources in the state plan. Allocations to the working capital fund are determined both by the plan to reduce the rate of increase of inventories and the goal of not replenishing the working capital fund in those sectors where the working capital fund is more than 50 percent of inventories. The largest percentage of resources available for distribution is allocated to the capital fund to support planned capital investment. Allocations to other funds are established at a level that corresponds to planned requirements.

Planned allocations of profits, capital asset depreciation and other sources will assure the financing of planned requirements of economic organizations in 1985.

The financial assurance of noninvestment expenditures for R&D projects and to support the activities of organizations of the R&D base have been established in drafts of the financial plans and state budget for 1985 in such a way that tasks scheduled for completion during the final year of the Seventh 5-Year Plan will be fully funded. At the same time emphasis has been placed on the mobilization of underutilized resources of the R&D base by intensifying their activity and allocating resources more efficiently.

Table 3 shows the planned amount and growth rate of expenditures and the structure of the resources to be used for financing the noninvestment requirements of R&D.

Table 3.

<u>Indicator</u>	<u>1985 Draft After Adjustment (billion Kcs)</u>	<u>Difference 1985-1984 (billion Kcs)</u>	<u>Index 1985/ 1984</u>
Noncapital expenditures on R&D - total	19.71	1.40	107.7
Financing sources:			
State budget	8.03	0.32	104.2
Internal resources of economic sphere	11.68	1.08	110.2

The financial plans of economic organizations assure the formation and use of R&D funds, which are earmarked for the assurance of tasks and activities

established in sectoral, divisional and enterprise R&D plans, or for proportional participation in the financing of state R&D plan tasks. According to financial plan drafts Kcs 11,68 billion should be expended from these sources, meaning that the internal resources of economic organizations will be used to finance 59.3 percent of all noncapital expenditures for R&D in the CSSR.

Currently the extent of our research capabilities and resources expended on R&D is comparable to that of the developed countries. This means we are not justified in requesting more resources, but must try to use the available ones more efficiently. Shortcomings can be eliminated by carefully considering which areas of problems to attack with the resources of our R&D base, and by creating a climate throughout the entire management system that considers the implementation of R&D results a necessity.

The draft of the 1985 state plan projects an increase in the revenues and expenditures of the budget system of Kcs 13.72 billion, an increase of 4.2 percent. This increase results both from the accelerated growth rate of the economy, tasks to assure increased efficiency in the production sphere and the efficient use of resources that are formed.

Table 4 provides an overview of the state budget and national committee budgets.

In line with Seventh 5-Year Plan legislation, the draft assures a balance between resources and requirements for the entire budget system and its individual elements.

Although state budget revenues for the Czechoslovak federation account for 64.1 percent of the revenues of the individual state budgets, the Czechoslovak federation budget accounts for only 21.8 percent of the expenditures of the individual state budgets.

The remaining resources of the state budget of the Czechoslovak federation come in the form of special purpose and general purpose subsidies to the state budgets of the republics to cover their planned requirements, including the requirements of national committee budgets.

Table 5 shows these subsidies as a percentage of the state budget expenditures of the republics, including subsidies to national committee budgets. These percentages reflect planned objectives in internal revenues and are in line with the state plan for 1985.

Table 4.

Indicator	CSSR		Federation		CSR <sup>a</sup>		SSR <sup>a</sup>	
	Billion Kcs	Index 1985/84	Billion Kcs	Index 85/84	Billion Kcs	Index 85/84	Billion Kcs	Index 85/84
Total state and national committee budget revenues	346.11	104.2	196.25	102.6	182.64	103.3	95.58	105.1
Composed of:								
-- Internal state budget revenues (excluding subsidies and subventions)	306.12	104.4	196.25	102.6	79.40	106.6	30.47	110.5
-- National committee revenues (excluding subsidies and subventions)	39.99	102.7	x	x	28.32	103.1	11.67	101.7
-- Federal budget subsidies	x	x	x	x	74.92	99.9	54.44	102.9
Total state and national committee budget expenditures	346.11	104.2	196.25	102.6	182.64	103.3	96.58	105.1
Composed of:								
-- Internal state budget expenditures	233.44	104.7	66.89	105.4	104.36	103.7	62.19	105.8
-- Subsidies to republic state budgets	x	x	129.36	101.2	x	x	x	x
-- National committee budget expenditures	112.67	103.1	x	x	78.28	102.8	34.39	103.8
-- Subsidies and subventions to national committee budgets	(72.68)	103.3	x	x	(49.96)	102.6	(22.72)	104.9
a) Including national committee budgets								

Table 5.

Year	CSR		SSR		CSSR	
	Billion Kcs	Expenditures (percent)	Billion Kcs	Expenditures (percent)	Billion Kcs	Expenditures (percent)
1984	74.14	50.8	53.12	67.1	127.26	56.5
1985	74.92	48.6	54.44	63.4	129.36	54.1

In comparison with 1984, and in line with the objectives of budgetary policy, subsidies as a percentage of state budget expenditures of the republics have been reduced in the draft of the state budget for 1985.

Subsidies to the state budgets of the republics are provided in the form of general purpose and special purpose subsidies. Special purpose subsidies account for 46.6 percent of the total in 1985. For the most part these subsidies are directed at selected types of price subsidies and interventions (such as intervention in support of procurement prices for the food and agriculture sector, differential payments in agriculture, premiums for market productions, etc.), subsidies for selected investment projects with a federation-wide impact (such as the system of water works along the Danube), at subsidies for foreign trade related economic mechanisms, housing construction, etc. General purpose subsidies, which account for 53.4 percent of the total, are directed at the area of public consumption covered from the republic state budgets.

In relation to the standard of living of the population, the following objectives have been established for 1985:

-- in the draft of noncapital budgetary outlays for the population measures have been included in the area of public assistance to families with children, adjustments in the pension system and in health insurance, and an improvement in the incomes of selected groups of workers in nonproduction sectors in the amount of Kcs 3.5 billion; in addition the proposed budget includes wage increases for selected groups of workers in production sectors amounting to Kcs 0.6 billion and a reduction in budget revenues due to modifications in notary public fee structure and real property prices of Kcs 0.2 billion; the total amount concerned is Kcs 4.3 billion to the benefit of the public;

-- noncapital expenditures on public services and activities for the population will reach Kcs 159.3 billion in 1985, which is about 2.4 percent higher than in 1984; these will increase by a total of 4.8 percent after the implementation of new measures; on a per capita basis they amount to Kcs 10,295, or Kcs 222 more than in 1984;

-- in the area of public services for the population noncapital expenditures for social security will amount to Kcs 88.7 billion, or about 2.8 percent more (6.3 percent including new measures); Kcs 25.5 billion in the area of education, or 2.1 percent more (3.7 percent after implementing new measures); Kcs 24.7 billion in health care which is an increase of 4.8 percent (5.9 percent including new measures); noncapital expenditures in relation to culture will be Kcs 4.1 billion, an increase of 1.8 percent (capital outlays will increase by 12 percent).

-- total expenditures from the state budget for housing construction and management of the housing stock will be Kcs 26.7 billion, which is 0.3 percent less than in 1984;

-- deliveries to consume goods inventories are slated to be Kcs 307.8 billion, about Kcs 6.6 billion more than in 1984 (index 102.2), with an average tax burden of 20.3 percent of the retail price; sales tax including domestic market differences will reach Kcs 94.5 billion, an increase of Kcs 1.9 billion. Modifications in retail prices will increase these revenues by Kcs 4.9 billion; the negative sales tax will amount to about Kcs 22.4 billion;

-- noncapital budgetary subsidies directly affecting the standard of living of the population will reach a total of Kcs 14.3 billion; these are primarily subsidies to the prices of slaughter cattle and poultry, the price of heat, and to cover losses in housing stock management and in urban public mass transit;

-- in 1985 after the implementation of new measures an increase is projected in average wages of 1.7 percent (exclusive of JZD). The monetary incomes of the population are slated to increase by Kcs 15.3 billion, thereby totalling Kcs 419 billion in 1985 (an increase of 3.8 percent). This represents the mean of increases of 2.5 percent in incomes, and of 6.5 percent in social security incomes;

-- increases in personal savings and currency will amount to Kcs 15.0 billion; passbook savings will reach the Kcs 215.7 billion level in 1985, and the currency in circulation of Kcs 52.1 billion;

-- new loans to the general public will amount to Kcs 10.9 billion (excluding interest) with total loans outstanding climbing to Kcs 37.7 billion (including interest).

Attention continues to be devoted to the implementation of tasks related to the Program of Efficiency Enhancement of the Seventh 5-Year Plan, which was approved by CSSR Government Resolution No 346/1981, and supplemented with additional tasks specified in Government resolutions No 321/1982 and No 270/1983.

The draft of the 1985 state budget incorporates savings due to the efficiency enhancement program, such as reductions in administrative personnel at central offices and at directly managed organizational administrations of 707 individuals; during 1982-1984 work force reductions in these areas have amounted to 2,289 persons. Plans are to reduce the administrative staff of national committees by 865 persons in 1985.

Reductions are continuing in nonproductive costs with the help of limits, and the development of organizational overhead costs is being directed. The system of putting constraints on selected cost categories was simplified based on previous experience by removing the constraints on propagation. Limitations on costs (outlays) for entertainment, refreshment and gifts have been left basically at the level specified in the breakdown of overall 1984 limits.

The constraints on external travel expenditures for economic and budgetary organizations has been set at the level of the 1984 plan.

In the area of other personal costs the objective has been set for the entire Seventh 5-Year Plan of achieving reductions in payments for work contracted to be performed on a free-lance basis by 30 percent from 1982 levels. The state plan for 1985 will cut down the wage resources available to sectors by the amount of the savings that are expected to be achieved.

Efforts to expand efficiency enhancement are also evident in other sectors, where existing expenditures are being looked at in terms of established national priorities and the effective allocation of available resources for the financing of new projects. In the nonproduction area the greatest efficiency consciousness is being applied to the noncapital expenditures of budgetary organizations and contributions to the support of cultural organizations. Increases in 1984 expenditure levels in these areas will be permitted only in conjunction with tasks contained in the state plan and for the resolution of any of several pressing tasks in this important area.

The implementation of the above objectives and goals of financial and budgetary policy in 1985 in conjunction with the fulfillment of state plan tasks and currency plan objectives will generate both the conditions for further dynamic growth of our economy and for the satisfaction of personal and public consumption requirements, and thereby also for the assurance of ongoing growth in our standard of living and the improvement of social certainty.

The objectives established for 1985 for national committees are also rigorous. In line with the resolutions of the Sixth CPCZ Central Committee Plenum and based on the improvement of financial and budgetary mechanisms, the efforts of national committees are to be focused on improving and further developing the positive trends in the economics of national committees. This will simultaneously provide for a further increase in material and financial resources and their utilization to meet nationwide tasks and to satisfy justified requirements of our citizens.

National committee budgets for 1985 are based on the necessity of implementing these objectives and are structured as indicated in Table 6.

Internal revenues of national committee budgets will increase comparatively by 2.1 percent and absolutely by Kcs 0.76 billion. This is the minimally acceptable increase in order that these funds along with state budget resources be adequate to cover growing requirements for capital investment and expenditures for social services and activities for the general public.

In line with budgetary management principles for national committees (a concern of the center) the draft 1985 budgets for national committees does not provide (with certain exceptions allowed by regulation) for the incorporation of supplementary resources. This creates the requisite opportunity for the satisfaction of additional essential local requirements by developing citizen initiatives within the context of the election programs of the National Front.



Table 6.

<u>Indicator</u>	<u>1985 Draft (billion Kcs)</u>	<u>Difference 1985-1984 (billion Kcs)</u>	<u>Index 1985/84</u>
Total internal revenues of national committee budgets	36.94	0.76	102.1
Of which:			
-- Transfers and taxes from economic organizations	11.26	0.48	104.1
-- Other taxes and payments	13.58	0.15	101.1
Special purpose subventions	32.77	1.31	104.2
General purpose subventions	39.91	0.98	102.6
Other sources	3.05	0.29	110.7
Total revenues	112.67	3.34	103.1
Total economic organization subsidies	14.22	0.06	100.4
Total capital expenditures (excluding Project Z) for budgetary and cultural organizations	22.43	2.16	110.7
Total noncapital expenditures for budgetary and cultural organizations	76.02	1.12	101.5
Of which:			
-- for public services and activities for the general public	62.37	0.89	101.4
Total expenditures	112.67	3.34	103.1

The fulfillment of the objectives and tasks of the state budgets and national committee budgets for 1985 requires the utilization, in conjunction with other administrative offices, of current favorable trends in national economic development, along with a more consistent focus on increased efficiency, improved resource management in the production and nonproduction spheres, the assurance of financial and budgetary equilibrium and balance in our foreign economic relations.

To fulfill the goals and objectives of the financial plan and the state budget it is essential to focus the active participation of financial agencies, including financial administrations, on the following tasks:

-- utilizing the possibilities for the more flexible and effective financing of R&D based on the updated decree of the Federal Ministry of Finance, No 163/1980, Sbornik, concerning the financing of noncapital expenditures for

R&D, thereby assisting in implementing the resolutions of the Eighth CPCZ Central Committee Plenum concerning the acceleration of the practical application of R&D results, a task also facilitated by additional measures in the areas of planning and management;

-- more consistently focusing and utilizing the financial and economic mechanisms of foreign trade to assure the increased efficiency of foreign trade and increased export capabilities; in conjunction with the tasks of the 10th CPCZ Central Committee Plenum it is essential to increase the technical sophistication and quality of our products, and to strive to add more value to raw materials, materials and power;

-- in agriculture plan objectives must be supported that call for having plant production overtake livestock production while adhering to the planned structure of output. This should be done by using noncapital subsidies from the state budget (differential payments, premiums, and supplementary payments related to procurement prices) provided differentially and primarily to assure planned livestock production up to the amounts contracted for. This will contribute to improved valuation and more efficient utilization of available fodder stocks and to intensify livestock production in line with the tasks specified by the 11th CPCZ Central Committee Plenum;

-- devote more effort to improving the product mix, quality, and sophistication of products for the domestic market, thereby contributing not only to the improved satisfaction of public requirements, but also to improving the value added to deliveries of goods to consumer inventories in terms of the ratio of retail and wholesale prices and sales tax revenues;

-- demanding tasks in cost reduction and for increasing profits require that attention be paid mainly to the development of material costs. It is here that, because of the gradual exhaustion of relatively easily mobilized reserves, the pace of reductions in these costs has been declining in recent years. The solution is the implementation of structural changes in production with a view to obtaining the maximum possible savings in fuel, power, metals and raw materials, and a speeding up of innovative processes;

-- capital investment must be tied to the financial resources that have been formed and directed in accordance with efficiency criteria. Decree No 37/1983, Sbornik, concerning invoicing and payments for capital construction deliveries and the performance of geological work must be used effectively to resolve existing problems in capital construction, especially limiting excessive noncompleted projects, the completion of facilities according to schedules, and a shortening of these schedules;

-- efforts must be made in the area of inventories to make maximum use of underutilized capacity in terms of excessive inventories from previous years, improve the structure of inventories, improve the promptness of deliveries to marketing and supply organizations. This should lead to a gradual reduction in inventories in production organizations, allow for a continuation of the culling of excessive and nonutilized inventories, the organization of their effective usage and for an increase in standard-setting activity;

-- care should be taken to assure that the revenues and expenditures of the budgetary system as a whole as well as of each of its parts are balanced by utilizing assertive measures to facilitate the assurance of overfulfillment of planned budgetary revenues and the maximum possible frugality in expenditures both in relationship to the economic organizations and to the budgetary sphere.

The proclamation of the CPCZ Central Committee, the Central Committee of the CSSR National Front and of the CSSR Government on the 40th anniversary of the culmination of the national liberation struggle of the Czechoslovak people and the liberation of our country by the Soviet Army provides an important motivation to fulfill the tasks of the state budget and state plan for 1985. In line with this proclamation it is essential to focus worker initiative, as the basic source of the intensified development of our economy, on the accelerated practical implementation of R&D results, improved resource management, increasing the value added to raw materials and materials, the more efficient utilization of the capital stock and the work day and development of various forms of socialist competition. This is the only way to satisfy the growing demands of the society and to improve the social certainty of the general public under the current conditions of development of our economy.

Fulfilling these goals and objectives of the final year of the Seventh 5-Year Plan means also to fulfill the economic and social policy established by the 16th CPCZ Congress, thereby developing a feasible, though demanding start to the Eighth 5-Year Plan, the objectives of which will be established by the 17th CPCZ Congress.

9276

CSO: 2400/425

CZECHOSLOVAKIA

#### BASIS FOR ACCELERATION OF INTENSIFICATION DISCUSSED

Prague HOSPODARSKE NOVINY in Czech 31 May 85 pp 1, 5

[Article by Eng Vaclav Vertelar, first deputy chairman of the State Planning Commission: "Assumptions for Accelerating Intensification"]

[Text] Currently, economic managers at all levels and work collectives in enterprises and installations are concentrating fully on the quality fulfillment of this year's plan and on preparations for proposals covering the 8th Five-Year Plan. A highly topical, urgent and far from simple task is the completely specific preparation of the plan for the year 1986 which must be based on the parameters of the next 5-year plan as an organic component of its demanding conception, aimed at attaining a change in the transition of the economy to an intensive type of development.

#### Fulfillment of Goals Set by the 16th Congress of the CPCZ

The principal tasks of economic and social development in Czechoslovakia during 1985 are specified in such a manner as to assure the fulfillment of the conceptual goals and intentions set forth by the 16th Congress of the CPCZ and the fulfillment, and in some areas even the overfulfillment of tasks involved in the 7th Five-Year Plan. The tasks set by the congress and by the 5-year plan emanated from new external and internal conditions which existed toward the end of the 1970's. Priority was given to the gradual renewal of external and internal balance, the removal of disproportions and the assurance of a harmonious development over excessive tensions and disproportionate dynamics. Consequently, for the first 2 years lower dynamics were anticipated and, during the second half of the 5-year plan, a lowering of foreign indebtedness was anticipated.

Following the 16th Congress of the CPCZ a decisive worsening of external conditions became apparent as a long-term factor (the aggressive policies of imperialist circles in the United States, the consequences of the so-called second oil shock, a crisis in the international financial and monetary system, etc.) as did the occurrence or persistence of internal shortcomings (failure to fulfill the tasks of the investment plan, harvest failure, etc.). It proved to be necessary to speed up the process of intensification and the reduction of indebtedness and, simultaneously, to continue to assure the sober but urgently standard goals set by the 16th congress: to maintain the

relatively high standard of living which had been attained, to further improve its quality and to fortify the social certainties enjoyed by the populace. A number of serious measures, aimed particularly at a significant reduction in expensive imports from capitalist nations, were adopted. Consequently, some quantitative tasks in the law covering the 7th Five-Year Plan (December 1981), and particularly in the approved 7th Five-Year Plan (May 1982), were lower than those set by the 16th Congress of the CPCZ. This was as a result of lower tasks set for the first 2 years. Beginning in 1983 the 7th Five-Year Plan anticipated the level of annual tasks and dynamics of development as set by the congress.

During 4 years of the 7th Five-Year Plan the concepts and intentions with respect to the formation, as well as the internal utilization of national income, are being fulfilled. This made possible a firming up of several original tasks of the 5-year plan for the year 1985 in such a way as to record general fulfillment of the tasks during the 7th Five-Year Plan and, in some areas, even overfulfillment. This is documented by several basic items of data regarding tasks for 1985, both in terms of the 5-year plan as well as in terms of the state plan for 1985 (in percent):

#### Growth for the Years 1981-1985

<u>Item</u>	<u>16th Congress of CPCZ</u>	<u>7th Five- Year Plan</u>	<u>State Plan for 1985</u>
Created gross national income	14-16	9.3	11.0
Gross industrial production	18-20	13.4	14.0
Gross agricultural production*	10.0	5.2	9.3
Utilized gross national income	3.8	-1.7	1.8
Including:			
Personal consumption	0- 3	3.0	5.7
Social consumption	13.0	12.0	21.6
Source of investments	0	-9.8	-3.1

\* Summary for the years of the 7th Five-Year Plan, as compared to summary for the years of the 6th Five-Year Plan.

These results are being achieved while the strategic policy lines of the CPCZ, which are aimed at intensifying development in the economy and increasing its efficiency are being gradually implemented. Compared to the 5-year plan the decline in the share of material expenses involved in operations, accompanied by relatively higher savings in the consumption of primary fuel and energy resources and some other raw materials and materials, experience the greatest speedup. The dynamics of decline in the use of fuel and energy per unit of national income is anticipated to be at an annual level of 1.8 percent, as opposed to 0.9 percent specified in the 5-year plan.

We do not overvalue the results attained during the first 4 years. This is only a matter of the first small steps on the road toward intensification. In this direction--and particularly because of it--the tasks of the 1985 plan are specifically more demanding.

## How Do We Stand This Year

The speeding up of dynamics of development in 1983, and particularly in 1984, took place while qualitative indicators in the national economy were improving. The magnitude of this improvement, however, did not reach the anticipated level spelled out in the state plan. In other words, intensification goals were not fulfilled to their full extent. The growth in the dynamics of national income for 1984 was covered roughly to a level of 85 percent by a growth in social labor productivity (coverage for the first 3 years approximated 80 percent); however, the tasks specified by the 16th Congress of the CPCZ, which specified coverage of this component to a level of 90 to 95 percent, were not met. Not even the anticipated relationship between the growth of labor productivity and national income was attained. The acceleration of the dynamics of national income was attained, for the most part, through acceleration in the dynamics of the social product, that is to say through more rapid growth of production consumption in comparison to the goals set by the plan. A lower valuation of goods in export trade as well as on the domestic market helped in this regard. The cause of this status is a slower realization of efficient structural changes, an inadequately consistent application of the efficient results of scientific and technical development in production, and the slow innovation rate applicable in production.

The plan for 1985 proceeds from the necessity to speed up the removal of these shortcomings and its basic intention is to fortify the renewed dynamics of development, particularly the formation of national income on the basis of increased profitability and an acceleration of intensification throughout the production process.

From this it is clear that the qualitative indicators, the indicators of profitability, are considerably more demanding in the plan for 1985 than was the case in previous years. It is possible to characterize this by saying that the tasks of intensification in the development of the economy for 1985 approach the parameters of the 8th Five-Year Plan, that this is the dress rehearsal for the 8th Five-Year Plan which is essential for assuring the smooth transition toward the fulfillment of the demanding tasks involved in the further economic and social development of Czechoslovakia.

Specifically, this is manifested in the fact that for 1985, given the same dynamics of growth of national income as in 1984, that is to say 3.2 percent, industrial production is expected to grow only by 2.9 percent (in 1984 it grew by 4 percent), agricultural production is to be reduced, according to plan, by 1.5 percent (last year it grew by 3.6 percent), construction is scheduled to rise by 0.9 percent (last year it grew by 1.9 percent).

The share of production consumption in the social product is to be reduced in 1985 by roughly double the reduction of last year and by substantially more than during the first years of the 7th Five-Year Plan.

There is no doubt that these are demanding tasks, substantially more demanding than our enterprises in installations were accustomed to fulfilling in the past. All analyses pertaining to the consumption of energy, material

expenditures, labor productivity, utilization of capital, the application of the results of scientific-technical development and other areas clearly indicate that these are not unrealistic tasks.

Reserves of all types are substantially higher and provide room for accelerated intensification in future years. The problem lies in the fact that the required break in the thinking at all management levels has not occurred yet, and particularly not in practical activity. The quantity of production continues to be in the forefront rather than the minimalization of expenditures per unit of production, quality, a high technical and economic level of products, their systematic innovation, an elastic adaptation to external and internal markets, a thorough commercial activity, including reliable service and the operational securing of spare parts. As was demonstrated last winter we emphasized more the "favorable weather conditions" in conserving fuels and energy over the past years than we did any actual and permanent provisions which might lower our high energy costs in production.

This is confirmed by the valuation, working out and assuring of the state plan in the economic plans of economic production units, enterprises and installations.

Qualitatively more serious problems with respect to the volume of production and delivery plan as it pertains to the principal directions of utilization do not exist. A decisive worsening, in comparison to previous years, exists in regard to assuring qualitative indicators. Consequently, the fulfillment of the state plan demands that the attention of branches of industry and economic organizations be focused on increasing the profitability of the creation of material resources and on fulfilling the tasks of the plan in this area as a decisive prerequisite for attaining the planned level of dynamics pertaining to the national income. This is primarily a question of lowering the overall and material expenditures, of evaluating production in terms of the domestic and particularly the foreign markets, based on the rapid application of scientific-technical developments in production. Increased attention must be devoted to maintaining targets in wage regulation and in assuring the state plan tasks in exports.

Together with reports on working out the tasks of the state plan some branches are presenting demands to have it adjusted. It is necessary to state that a considerable amount of pressure exists to soften the tasks. This is so particularly with respect to foreign trade, in tasks calling for increased profitability of production, a higher evaluation of export deliveries and deliveries to domestic markets. They use the argument of the toughness of the tasks involved in the plan against the results attained in 1984 and they also use the argument of internal problems existing in enterprises and economic production units, for example, the worsening internal structure of production as opposed to the original enterprise goals. There are considerable demands to adjust the limits for fuel oil and motor fuels. Such demands cannot be accepted if an extraordinary event (for example, an accident) or a nominal change of tasking decreed supplementally by the government are not involved.

The higher demands of the tasks are known, are essential and, from the standpoint of possibilities, are even realistic. The majority of enterprises admit this and, despite various problems, are prepared and capable of fulfilling these tasks. The state plan basically does not specify qualitative tasks for individual economic production units or enterprises. Industrial branches are responsible for the extent of the demanding nature of tasks with respect to individual economic production units; and economic production units, in turn, are responsible for the extent with respect to individual enterprises. In other words, they must seek ways of solving existing problems within their areas of jurisdiction.

The above-listed tendencies are confirmed by the results of plan fulfillment for 4 months of this year. From the beginning of the year to the end of April industrial production rose by 3.7 percent compared to the same period of last year (the annual figure for the dynamics contained in the state plan for 1985 is 2.9 percent). The exceeding of the annual planned dynamics by 0.8 point was influenced particularly by developments in the fuels and energy field (compared to the plan by more than 3.6 points), in general engineering (by 2.7 points), in light industry (by 1 point) and in several other areas. A lower degree of fulfillment of the annual tasks exists in the wood processing industry, in heavy engineering and in the production of building materials. A reduction in industrial production in January and February, as a result of above-average frosts, has already essentially been made up. The situation is worse in the construction industry where the volume of construction work accomplished by our own construction workers is, for the time being, considerably below the levels of last year.

An important fact is that qualitative indicators are not being fulfilled; the efficiency of production is not being increased in harmony with the plan. It is not possible to ascribe everything to the influence of freezing weather. The results attained by individual enterprises in this regard are quite different. One can rightfully anticipate that many of them would have serious problems even without the influence of frosts. A considerable amount of unevenness and inconsistency also continues in the fulfillment of tasks in individual enterprises and facilities. It is necessary to urgently derive conclusions aimed at removing the existing shortcomings. Salvation based on changes in the plan should not be anticipated; blame should not be looked for with others. It is necessary to rely primarily on one's own forces and capabilities. Only in this manner is it possible to prepare for the demanding tasks of the next 5-year plan and for the year 1986.

#### Preparations for the 8th Five-Year Plan

Work involved in preparations for the 8th Five-Year Plan is organized on the basis of Czechoslovak Government Resolution No 262/1984 regarding the basic directions of economic and social development in Czechoslovakia through the year 1995 and on the Directive for Working Out Proposals for the 8th Five-Year Plan of Development of the National Economy for the Years 1986-1990. According to these fundamental aims and tasks, organs of middle management presented their proposals for the 8th Five-Year Plan on 31 March of this year and central organs presented their plan on 31 May of this year. On the basis of



these documents and additional materials, the State Planning Commission, in cooperation with the planning commissions of the two national republics and taking into account the final results of coordination of 5-year plans with the socialist countries, will work out the proposal for the 8th Five-Year Plan and will present it to the government of Czechoslovakia in the fourth quarter of 1985.

The tasks and intentions set forth in the directives for working out the 8th Five-Year Plan for 1986 simultaneously serve as an orientation for the preparation of the implementation plan for next year. The proposals for the year 1986 were presented by the economic production units and by the central organs as a component of their proposals for the 8th Five-Year Plan by the above-mentioned deadlines. Thus, for the plan for 1986, no independent directive was issued or will be issued and the economic production units and central organs will not independently present proposals for the plan for next year during the summer, as was the case in past years. Thus, a far greater amount of room has developed for the preparation of the annual plan in economic production units, enterprises and facilities.

Unfortunately, there are signals indicating that this amount of time was not adequately and rationally utilized everywhere. In their totality, the proposals for the 8th Five-Year Plan, as presented by economic production units, do not assure the intentions of the directive. Outputs are also lower, but the principal shortcomings are in qualitative indicators. For example, for the 5-year plan period outputs are accumulatively adjusted to be lower by 200 billion korunas. Total expenditures are higher by roughly 140 billion and profits are lower by roughly 126 billion korunas. Demands for investments are higher by roughly a quarter, etc.

It can be anticipated that, on the basis of adopted measures, the proposals of central organs will be substantially more favorable. A topical problem is that the proposals by economic production units cannot serve as reliable documentation for the working out of plan proposals for the year 1986--the first year of the 5-year plan. Thus, it is essential that, particularly the economic production units and enterprises where this has not yet occurred, activate the plan preparations for next year very emphatically. The fundamental parameters are known. We must proceed from the viewpoint that the tasks established by the directive are more minimal. It is particularly necessary that each enterprise and facility urgently and completely specifically prepare such measures which would assure a definite break in the type of approach toward efficiency in the entire reproduction process.

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CSO: 2400/482

HUNGARY

# PLANNING OFFICIAL ON PROBLEMS, TASKS

Budapest PARTELET in Hungarian No 6, 1985 pp 10-16

[Article by Janos Hoos, a member of the MSZMP Central Committee, state secretary of the National Planning Office: "Difficulties and Tasks in the Annual Plan's Fulfillment"]

[Text] The main economic-policy objective of the 1985 national economic plan is to further improve and consolidate national economic equilibrium, to increase the efficiency of production, and on this basis to accelerate the growth of national income. The government resolution approving the plan specified that the improvement of external economic equilibrium must be regarded as a preferential task, and that our foreign indebtedness must be reduced. This requirement means specifically that the surplus in our balance of trade must be increased this year as well, but this increase--unlike in recent years--will not necessitate a curtailment of domestic spending if the targeted growth rate of national income is achieved. Thus, the decline of real wages and investments, the two important elements of domestic spending, can stop this year, and personal per capita real income and consumption may even rise.

Therefore the plan attached great importance to the elaboration and acceleration of activities that result in an improvement of production's efficiency, in triggering such structural changes, and the expansion of resources in such composition and on such a scale, that ensure the further improvement and permanent consolidation of economic equilibrium.

Perfection of the system of economic management and modification of its essential elements are the most important means for the solution of this task. The changes ripe for solution have been introduced as of 1 January 1985.

Goal-oriented action programs will also contribute toward the plan's realization. We expect them to help promote energy conservation, the economical use of materials, the modernization of technology, the utilization of by-products and scrap; furthermore--with the help of state measures--the expansion of nonruble-denominated export and transaction of a commensurate import, the substitution of expensive nonruble-denominated import, the streamlining of the organization of transportation, and more efficient manpower management.

Taking into consideration the probable results of the measures, this year's plan anticipates that national income will grow by between 2.3 and 2.8 percent,

which will permit domestic spending to rise by between 1.0 and 1.5 percent at an increase of the balance-of-trade surplus. In comparison with the restrictive economic policy we have been forced to adopt in recent years, this is an essential and unambiguously favorable change, in terms of social policy and from an economic viewpoint as well. It may enable the economy to switch to a track of faster growth under the coming 7th Five-Year Plan, resulting in more favorable economic development and a higher living standard. Fulfillment of the 1985 national economic plan's equilibrium requirements is a prerequisite for setting such a target in the 7th Five-Year Plan.

It became obvious already at the time of formulating the targets for this year's national economic plan that its successful fulfillment would not be an easy task, and our experience during the few months since that start of the plan's implementation indicates that we could encounter even greater difficulties than expected. Unfavorable developments have occurred that could not have been foreseen at the time when the plan was drafted (and this is true especially of their scale). These unfavorable developments are as follows: unusually cold weather last winter increased the already high consumption of energy, necessitating imports of energy sources in excess of the plan; due to the weather, the cuts ordered in energy consumption to ensure the households' energy supply resulted in production dropouts; export opportunities proved even worse than forecast, prices fell more sharply than expected (the price of aluminum, for example, is 25 to 28 percent lower than last year, and meat prices are 4 to 24 percent lower, depending on the commodity item), and our foreign-exchange earnings are lower as a result; some economic organizations are requesting more state grants and subsidies--for the listed reasons, among other things--because they want to compensate for their more difficult situation not by improving the efficiency of their operations, but preferably by obtaining more state aid, i.e., at the expense of state funds or indirectly at the expense of the other enterprises. All this jointly may create a situation more difficult than anticipated in the plan.

To offset these unfavorable developments, or at least most of them, will require extra and greater efforts of the economy, and especially of the enterprises and other economic units. And we should realize that in many instances the shortcomings of our domestic work and the inadequate efficiency of our operations also have contributed to the unfavorable developments. The managing agencies are systematically monitoring how the economic processes are developing and are striving to identify in due time the danger points in the plan's fulfillment and, when necessary, to adopt measures to avoid them.

At the same time it is encouraging that a significant proportion of the economic units are striving purposefully to compensate for the production dropouts, for a possible drop in foreign-exchange earnings, and for the incurred losses. The economy's central management supports such behavior and even aids it when necessary.

In the development of the economy to date we can see results corresponding to the plan's concepts, and in some areas also the shortcomings that stem from the mistakes and adverse conditions.

1. In the supply of energy, a difficult situation developed by the beginning of this year. Its causes are many and include, among other things, a nearly 4-percent rise in energy consumption last year, as compared with the 1.0- to 1.5-percent rise planned, while the output of energy fell slightly short of the plan. Stocks were thus depleted last year by more than had been expected, and the cold winter caused a further rise in the already high energy demand. The additional energy consumption due to the January-February cold spell can be estimated at 20 to 25 petajoules, the equivalent of about 500,000 to 650,000 metric tons of petroleum. We were able to avoid major interruptions in energy supply, and to ensure the population's energy needs, only by importing a substantial volume of energy sources in excess of the plan. But, as you very well know, we had to curtail even so the supply of a few heavy energy users.

We can expect also the national economy's energy consumption for the entire year to exceed the plan. The buildup of stocks to a safe level is likewise unavoidable. All this requires additional imports of energy sources in excess of the plan, which will be a heavy burden on our nonruble-denominated balance of trade. Thus it is in our fundamental interest to keep our energy consumption as low as possible, by consistently implementing the program for making energy consumption more efficient and, over and above this program, through economic-management and enterprise measures to reduce the specific consumption of energy. Since our energy consumption will significantly exceed the plan due to the exceptionally severe winter, and since the unplanned consumption can be supplied only from nonruble-denominated export, we must strive to offset the additional expenses as much as possible with additional export and with savings on imports in other areas.

2. The growth of production slowed down at the beginning of the year, due mainly to the weather and the related restrictions on energy supply.

--Industrial production during the first two months of this year was nearly 1 percent lower than during the same period last year. The production dropout due to the restrictions on energy supply can be estimated at about 5.0 billion forints, which is approximately 3 percent of industry's two-month output or about 0.5 percent of annual industrial production. Production in the most affected sectors--metallurgy, the chemical industry, and the building materials industry--declined by 6 to 17 percent. Industrial production during the first four months was barely more than during the same period last year.

In the opinion of the enterprises concerned, a large part of the dropouts can be made up during the remainder of this year. This will require the implementation of the measures that the enterprises have already decided to introduce. These include such measures as rescheduling production, ordering overtime, working more shifts, organizing Communist shifts, more intensive participation of the enterprise work associations, shortening the time required for maintenance and major overhauls, stricter economization of materials and energy conservation, rescheduling the shipments postponed due to the production dropouts, new agreements with the partner enterprises, etc. If these measures are successful, industrial production may develop essentially in accordance with the national economic plan, at slightly higher input costs than expected. In spite of the efforts to compensate for the dropouts, there may be difficulties in the domestic supply of several types of products (metallurgical products, cement, and fired-clay roofing tiles).

A more serious problem is that, in the opinion of the ministries and enterprises concerned, there may be a considerable shortfall in the targeted nonruble-denominated industrial export, due to the poor export possibilities and low prices. The shortfall may be very significant primarily in engineering, but also in light industry and the chemical industry. If in the absence of export opportunities the planned product volume is not produced, and assuming that domestic sales and the volume of ruble-denominated export develop as planned, this might cause a production dropout of 9 to 10 billion forints at comparable prices. Thus if we consider also the ripple effects and the production dropout due to winter weather, the growth rate of industrial production would be substantially lower than the approximately 3 percent planned. And since in all likelihood the input costs would not drop commensurately, industry's contribution to national income would decline by even more.

--The contracting construction industry's output during the first two months of this year was 72 percent of its output during the same period last year, and the value of the construction and installation work in place was lower by between 3.0 and 4.0 billion forints. The shortfall was caused predominantly by bad weather that affected primarily the civil-engineering and the building-construction industries, forcing them to completely or partially halt all outdoor work. Construction activity picked up in March, but even so its performance during the first four months was nearly 20 percent lower than during the same period last year.

The enterprises intend to make up their losses through labor and work-organization measures, and stricter economization. Economic management is striving to support primarily these efforts. In addition, it is initiating coordination and cooperation, with the MAV [Hungarian State Railways] for the better supply of the enterprises' transportation needs, and with the competent officials of foreign trade and domestic trade, in the interest of supplying imported building materials. If the production and transportation of the requisitioned industrial products prove suitable, 80 to 90 percent of the production losses might still be made up as a result of the measures adopted so far. But the fact remains that the few housing units now under construction, and the damage caused by frost make fulfillment of the plan's housing-construction targets very difficult. The indications are that construction activity abroad will likewise be lower than anticipated.

--In agriculture, the damage to field crops and livestock has not been so extensive as to jeopardize domestic supply or fulfillment of the export targets. Winter crops, on an area larger than planned, have wintered over very well. There was some delay in resuming work in the fields in spring. Early fruits and vegetables will therefore be 2 or 3 weeks late, and probably they will be not as good as their customary quality in years past. The grape harvest is expected to be smaller as a result of frost damage.

The plan started out from the principle that the rapid increase of the livestock population and of the production of slaughter animals would not continue, for economic reasons. However, it is unfavorable that the livestock population at the beginning of the year was smaller than expected, and that the decline of the number of hogs and sows continued during the first three months. A contributing factor has been that small-scale producers lost, primarily because

of the severe cold, nearly three times as many hogs during the first three months of this year as in the same period last year. Therefore the production of slaughter animals will probably be smaller also for the entire year than what the annual plan targeted. Presumably this will not affect domestic supply, but it may cause problems in fulfilling the export targets. However, the smaller livestock population may enable us to export more grain.

Another factor acting against the anticipated growth of production is that the ancillary activity of the large-scale farms did not grow last year, in contrast with its dynamic development in recent years, and it is very likely that its level will fall short of the expected in 1985 as well. This is unfavorable especially in the areas where the local population is unable to find other employment, or where the incomes of the large-scale farms are falling off due to their declining ancillary activity. The contribution of agriculture and the food industry to national income is being reduced also by lower prices and foreign-exchange earnings in nonruble-denominated export.

However, it is encouraging that the agencies that manage agriculture, and the farms themselves have already worked out many ideas on how to compensate for their losses. If these ideas are implemented successfully, and assuming average weather conditions, the farm output and net foreign-exchange earnings will barely fall short of the plan.

--The exceptionally cold weather put the infrastructural sectors--transportation, telecommunications, and the management of water resources--to a severe test. Due in part to the transportation difficulties caused by cold weather, and in part to the production dropouts, the demand for freight transportation declined, and therefore the first-quarter freight-hauling performance of the transportation enterprises was lower by more than 10 percent than in the first quarter of last year. Especially the shipments of bulk goods (stone, gravel, cement, and fertilizers) declined. If the plants make up their production dropouts, and it is hoped that they will, then this will increase the demand for freight transportation, which might cause bottlenecks particularly during the customary third-quarter transportation peak. Thus very deliberate and purposeful measures are necessary, on the part of the shippers and carriers as well, to ensure that the demands for freight transportation can be met without any major disruptions.

The weather caused more damage than usual to roads, power lines, the gas, water, and sewer networks, to telegraph and telephone lines, and other installations. In many instances they could be kept in operation only at considerable additional cost, and costs of repairing the damaged installations will likewise be substantial. The operators are repairing the damage, mainly at their own expense, but state aid also will be necessary in some places.

3. The unfavorable developments outlined above affect primarily our nonruble-denominated foreign trade. But the balance-of-payments items other than merchandise transactions are not expected to develop more favorably than planned either. Indeed, the decline of international interest rates has been slower than expected, and interest payments will therefore be larger than planned. Which poses the danger that the principal of our foreign debt in convertible currencies, instead of being reduced as the plan calls for, may even increase, and our external economic equilibrium may again worsen.

4. The development of personal incomes and investments, the two main items of domestic spending, does not show any particular signs of rising considerably faster than planned. But this may be due, at least partially, to temporary reasons that have not been adequately clarified as yet. The possibility of increased spending cannot be excluded. In the light of what has been said above, however, domestic spending of national income must not exceed the plan under any circumstances, and it cannot be allowed to jeopardize the planned balance-of-trade surplus.

5. In conjunction with the unfavorable effects (worsening terms of trade, increased energy consumption, the necessary additional inputs, etc.), aggregate income generated in the national economy will probably be less than planned. Since personal incomes in all likelihood will attain their anticipated level, the drop in income will affect basically the state budget. At the same time, the demands on the state budget are much greater than planned, due in part to the losses caused by the severe winter. Increased demands obviously cannot be satisfied from less income, and therefore very strict budgetary management is necessary: the unavoidable additional expenditures must be offset by savings in other areas.

The experience to date unambiguously indicates that if we fail to make up the production dropouts at the beginning of this year, to realize the export that now seems uncertain or to substitute other products for it, to compensate for the decline of export prices, and to offset the additional costs with more efficient operation, then the planned growth of national income cannot be attained. According to the computations, the growth of national income in this case would be barely 1.0 percent, instead of the 2.3- to 2.8-percent growth rate planned; resources would be lacking for the planned increase of domestic spending, or the planned balance-of-trade surplus would not be achieved. An unfavorable situation would arise also from the viewpoint of the 7th Five-Year Plan's elaboration, and of carrying out the resolutions of the 13th MSZMP Congress. A satisfactory solution can be brought about only if the agencies managing the economy, and the economic units succeed, through their renewed and intensified efforts, in improving the economy's performance. The primary task is to consistently implement the already decided economic-management measures and to influence the enterprises' work in the direction of realizing the main objectives. Unfailing realization of the following tasks is of outstanding importance:

--In engineering and the other industrial sectors it is important to expand nonruble-denominated export of acceptable efficiency. When warranted in the course of this, economic management will aid also individually the additional export that is advantageous for the national economy, primarily through the banking system.

--In agriculture and the food industry it is of fundamental importance to ensure a larger nonruble-denominated export than planned, and to save import wherever possible. In the nonruble-denominated balance of trade in farm and food-industry products we must achieve a surplus that approximates the anticipated one.

--By implementing the government program and other measures for making energy consumption more efficient, the foundation must be laid for letting domestic energy consumption exceed the 1983 level by 4 percent at most, and for keeping it essentially at or below the 1984 level, over and above the additional consumption due to the severe winter and parallel with continuously supplying the demand for energy.

--In the interest of reducing the specific production costs and, within this, of curtailing nonruble-denominated import, the programs must be implemented for the substitution of expensive import, for economization in the consumption of materials, for the modernization of technologies, and for the utilization of by-products and scrap. A situation must be created such that the nonruble-denominated import of materials, parts and subassemblies is in harmony with the national economy's realistic needs, and the imports are made available primarily to the enterprises that are assuming an increasing role in nonruble-denominated export. Production for export must be reduced or discontinued if it does not result in net foreign-exchange earnings and does not contribute to the improvement of external economic equilibrium.

--Measures must be elaborated and implemented to keep domestic purchasing power within the planned limits, with special attention to preventing a possible rise of investment above the planned level. Strict discipline must be exercised in awarding state aid for investments, in lending practices, in the utilization of investment reserves, and in employing the instruments that regulate the enterprises' internal resources.

--Measures are necessary to ensure an acceptably balanced state budget. The enterprises' requests for subsidies must be resisted consistently. Savings must be achieved in comparison with the budgetary appropriations, and efforts must be made to increase budgetary revenue. No further decisions may be adopted that would burden the budget's reserves.

The competent state agencies have already elaborated specific measures in conjunction with the outlined tasks. They will monitor continuously the implementation of the measures and will initiate additional measures if necessary. In the work of the agencies that manage the economy and of the economic units themselves, however, it is important to assert stricter accountability for the national economic plan's objectives and for economic equilibrium, and to repel the efforts that want to solve the economy's stresses, and the stimulation of the additional tasks' fulfillment, along the path of least resistance, at the expense of the balance of payments.

If we realize what has been outlined above, there is a possibility that the growth of national income might attain the lower limit of the growth rate's planned range. If this comes about as a result of exportable or import-substituting production, the planned nonruble-denominated surplus might be approximated. In this case the planned rise of the main items of domestic spending would be feasible, with due consideration for the requirements of equilibrium. But if economic work does not produce acceptable results, our external economic equilibrium might again worsen. This has to be prevented at all cost. Economic management and the enterprises must now concentrate their efforts primarily on generating more resources for the national economy and on a satisfactory external economic equilibrium.



HUNGARY

WAGE REGULATION REMAINS NECESSARY

Budapest PARTELET in Hungarian No 6, 1985 pp 17-22

[Article by Albert Racz, chairman of the State Office of Wages and Labor Affairs: "The Objectives and Possibilities of Administering Wages"]

[Text] Worded in many different ways, wage practices and the general questions of wage policy were raised also at the 13th MSZMP Congress. Quite a few of the speakers judged the income situation in a sector or stratum as unfavorable, in comparison to that of others; and several speakers came to the conclusion, expressed or implied, that higher wages and salaries were warranted and feasible in every area. These contributions to the debate reflected the wage system's most important general interrelations. First of all, the harmony between performances and pay; the financial recognition of heavy physical labor under adverse conditions; the pay of technical and economic intellectuals; the pay attainable during and after regular working hours, etc.

To these and similar questions, do we have answers that public opinion, too, will find acceptable?

It will be expedient to start out from the 1985 objectives of wage policy, rather than from the historical past, although the latter, too, had a significant role in the development of the present situation. For now, after several years of declining real wages, we have reached the point where we are planning to maintain the level of real wages, if the expectations of economic policy are realized. We can achieve this if we raise the actually paid nominal wages by between 7 and 7.5 percent, which is higher than the rates of wage increases in recent years.

As of 1 January, the content and methods of pay regulation basically changed, for enterprise-type economic organizations in both industry and agriculture. The regulation of average wages has lost considerable ground, and attention has focused on the feasibility of paying wages and salaries contingent on the economic units' profits and profitability. Which means that an enterprise's performance (profit) must provide the coverage for the payment of wages and salaries, to a much greater extent than up to now. A further advantage is the ability of enterprises as well as cooperatives to choose from among the different forms of wage regulation--average-wage regulation, wage-level regulation, and wage-fund regulation--the one that is the most favorable for them.

The opportunity to give larger raises, and the changes in regulation have made it possible to employ on a much wider scale than up to now a wage system linked to performance. In terms of their ability to pay wages and salaries, however, there are significant differences among the enterprises already at the start, because they are scattered within a wide range on the basis of their profitability. For it is common knowledge that any pay regulation that makes the opportunity to give raises contingent on enterprise performance, on enterprise income sufficient to cover the wage bill, favors the enterprises that operate with average or above-average profitability. We find that such "well-heeled" enterprises do avail themselves of this opportunity, and the large raises often are indeed combined with the more consistent application of the harmony between performance and pay. Most of these enterprises are beginning to gradually rectify the chronic disproportions in pay that are typical at present. For example, they are ensuring preferential, above-average pay for production managers, for technical and economic intellectuals. At many places the pay of key workers in development is being raised well above the average. A consequence of the performance principle's more consistent assertion is also the increasing shedding of surplus personnel. From the viewpoint of wages, there is less and less need for so-called deadwood.

Naturally, realization of wage regulation's possibilities requires good managers, expedient assertion of the collective's interests, and suitable political work. Acceptance must be gained for the mentioned wage-policy practices, the growing income differentials, and the fact that the work can be done by fewer people as well. However, higher pay must necessarily result in additional performance. In other words, emphasis is on performance, specifically on long-term performance. For if the enterprises fail to maintain or improve their present favorable situation also in the future, then eventually they will be at a disadvantage also from the viewpoint of what wages and salaries they are able to pay. If the performance, the profit, is not enough to pay the taxes on the higher wages and salaries, then the enterprise is forced to reduce its wage bill: either the enterprise will have the same work done by fewer people, or the pay of individual workers will decline.

The question arises as to what happens at the enterprises where the profit incentive does not function at all or only to a limited extent. What can they do? A significant proportion (about 26 percent) of the enterprises have been authorized centrally to increase wages and salaries by rates ranging from 5.5 to 7 percent. In my opinion, these enterprises also are able to manage wages and salaries sensibly and offer incentives. Many of these enterprises do not regard these increases as enough in comparison with the larger raises that other enterprises are giving from their own resources, and there are fears for the enterprises' ability to hold on to their employees. This question arises rather acutely because this circle comprises enterprises in the nature of utilities, producing energy and basic materials.

These fears, in my opinion, are unfounded because the rates of the centrally authorized wage increases (supplemented in some places by raises that the enterprises give from their own resources) are determined with due consideration for the specific conditions of the given area. A much greater problem might arise if the enterprises belonging under this form of wage regulation follow their customary pattern of behavior, do not devote adequate attention to using

the available wage fund in a way that offers incentives, and distribute the raises equally, without any requirement or additional performance.

There are quite a few enterprises where the annual average increase of wages and salaries will be well below the national average, due to low profits or operation at a loss. This situation can be changed by improving the conditions that existed at the start. Regardless of how trite the following advice may sound, the only way of accomplishing this is through better management and greater efficiency. Various methods can be devised, but the conditions for paying higher wages and salaries can be ensured only by improving production. Therefore it is exceptionally important that these enterprises use the available, and as yet still limited, opportunities so as to offer incentives and to increase performances.

The counterargument is frequently brought up that suitable incentives cannot be provided, and wages and salaries cannot be differentiated in accordance with performance, when only little money is available. I think it is better to turn this argument around, because then the meaning comes through more clearly: with more money it is easier to provide incentives, and to manage wages and salaries. But where is this "more money" to come from? We are again at the essence of the problem: it must be created through economically efficient work. In his summary of the debate at the congress, Janos Kadar said: "I approve that these questions (the wage demands of the various areas, trades and sectors--A.R.) have been discussed here, because I do not consider raising them as unfounded and unjustified. I merely request that we agree on one thing: that we must first of all provide the economic and financial bases for raising the incomes, wages and salaries of wide working strata, and for giving them grants and benefits. Otherwise we would be building castles in the air, which could result in serious losses even for the mentioned strata."

Many people gratuitously simplify this issue, claiming that this is the question of which comes first: the chicken or the egg. Indeed, they believe that wages must first be raised to obtain higher performance. This view cannot be dismissed with a wave of one's hand either. But we must at least achieve--and the system of regulation also serves this purpose--that the efficiently operating organizations' workers enjoy an advantage in terms of their wages and salaries. For it is not possible to continue indefinitely, without harmful consequences, the practice of taking away the results of additional work from those who produced them, in order to keep uneconomical plants in operation.

At the time of perfecting the system of economic management for 1985, the idea--an extreme one, in my opinion--was also advanced that the changes in the regulators be given completely "free rein in the economy." Even if wages and salaries drop by 10 or 20 percent during the period of transition at the enterprises operating with low efficiency or at a loss, and even if these enterprises may have to go into liquidation.

Undeniably, such a solution also could be imagined, but in our present situation it would mean a practically unbearable burden. I personally subscribe to the principle that the functioning of the system of regulation over a longer period of time, and not its change at a given point in time, influences the enterprises' operations in the direction of our economic-policy objectives. This

is not in conflict with the fact that modification of the system of regulation sets new conditions and circumstances for the enterprises' operations. In pay regulation, this principle is asserted through the provision that the enterprises--in order to adjust to the new system of regulation, and not merely to pay regulation--may choose temporarily some form of pay regulation other than pay-level regulation. However, we must not forget that this provision is intended merely as a "lifeline" so that the enterprises may switch to the new track without undue stresses. Therefore it is natural--and not a shortcoming of the method--that the "lifeline" allows only a little air to be used, i.e., wages without commensurate performance. If the enterprises want to prosper, they are forced to operate in a new way and prepare for the application of a new form of regulation that is stricter in demanding performance but permits the payment of higher wages and salaries.

We have had favorable experiences this year to date, but we must also mention a behavior in the management of wages and salaries that may be termed general and reflects the "old way" of thinking on several questions. What I have in mind is first of all the flood of requests for the approval of separate wage rates, wage preferences and wage corrections. It is typical of most of these requests that the economic units cite some reason to give tax-free raises that are not based on additional performance and exceed the limits that pay regulation allows. Today when the essence of regulation is that the enterprise operate more efficiently and profitably, and thereby produce the additional wage fund for raises, opportunity to raise wages and salaries unconditionally would further aggravate the economy's equilibrium problems.

Unfortunately, public mentality still tolerates the following view: "Let us ask the government agencies for a larger wage fund. That will not cause any trouble. The worst that can happen is that we will not get it." Such attempts are not without their effects. They are attempts to disarm, because they do not direct the forces toward greater performance. They create the impression that the enterprise has done everything in its power to secure higher wages and salaries, and now the rest depends on the judgment of the central agencies. In political and trade-union work, too, thinking and actions often tend toward perfunctory comparisons when higher pay at another enterprise, without any regard whatsoever for the differences in performance, is considered sufficient reason to submit a request for the approval of higher wage rates.

The views on, and the acceptance of, above-average and outstanding earnings and incomes continue to cause problems. Generally speaking, we agree with the principle that wages and salaries should reflect more and better work, greater responsibility, and innovative behavior. In practice, however, we are making only slow headway. We are not consistent enough in the practical application of this principle. I find this statement valid for every level of management and the individual collectives as well. Already the basic salary, and earnings in particular, should reflect the (performance) requirements at the various levels of work organization, from the chief executives down to the production managers. Very often we still fail to achieve this. Just consider how long we have been talking about the suitable financial appreciation of foremen and of managers in general. But, at practically every economic unit, specifically these are the lowest-paid jobs in comparison with the wage system's schedule

of rates. Perhaps we lack the courage? This nonetheless is hampering performance-commensurate wages at the economic organization, and even the setting of requirements. These jobs are losing their appeal, because of the limited pay.

Our failure to rid ourselves in due time of chief executives unable to fulfill their duties, or their failure to seek other work, is a problem that I regard as serious as the preceding ones. This is unfair to the chief executives who perform their work well or outstandingly well, and it is definitely a disincentive and holds back performance. Such a chief executive is unable to set requirements in his own area, and therefore his wage-administration practices reduce to pointless wage equalization.

In political work, daily efforts are necessary to gain the collective's acceptance of exceptional financial rewards for higher performance. This is less of a problem in comparable blue-collar jobs, because there it is common knowledge what everyone does, how much he is paid, and whether or not he deserves his pay. But the problem is more complicated when it comes to judging the ratio of performance to pay more generally: for spheres of activity, plants, and tasks. For example, in the case of technical and economic intellectuals, production managers, R&D personnel, toolmakers, etc. who necessarily deserve more financial recognition than they have been getting up to now. Of course, we must also take cognizance of the fact that pay ratios can change perceptibly only over a longer period of time. But everything to this end must be done continuously, depending on the available resources.

The acceptance of higher pay that is based on performance is influenced also by the conspicuously high earnings and incomes that are obtained by trickery and are not commensurate with the work performed. We must prevent their rise and disbursement by every possible means.

I personally object also to the fact that in our discussions and debates we tend to bring up primarily the cases in which someone earns "a lot" with little effort, by changing jobs. I am not belittling such cases, but far more important and open to criticism, in my opinion, is the responsibility of the chief executives who approve, and order the disbursement of, the high wages and salaries that are not commensurate with the work performed. They are the ones who have to judge how much each employee's work is worth from the viewpoint of the entire collective, and to gain acceptance of this judgment in their environment. We should add that it is at least equally harmful when the chief executive, for some reason (usually referred to as "principle"), refuses to approve the disbursement of pay earned by work.

Greater cost-sensitivity has been one of the most important objectives of perfecting economic management and regulation. It is not very apt, in my opinion, to speak of the "enterprise's cost-sensitivity" because then this important question becomes impersonal. Cost-sensitivity must be closely linked to the incentives of individuals and of the collective. They should feel through their earnings the favorable or unfavorable changes in costs. When we link the enterprises' opportunity to raise wages and salaries to their profit or profitability, we are actually creating these incentives; in full awareness, of course, that there are also external factors (prices, weather, exchange rates, supply of materials, and even regulation) influencing the development of costs.

Taking the combined effects of the internal and external factors into account, the economic units have to minimize their costs. This is a general economic requirement, but it does not exclude the possibility that exceptionally regulation may take into consideration the more significant external factors that influence an enterprise's operation.

As of January of this year, the changes in interest relations have strengthened cost-sensitivity. We experienced this already in the past two years, during the experimental application of wage regulation, and it has influenced favorably the expansion of the circle of enterprises employing pay-level regulation. Many enterprises and cooperatives have modified their internal incentive systems so that it reflects the ratio of wages to costs or, from a different approach, the ratio of wages to profit. This is influencing favorably the development of performances. Over and above this, the workers and cooperative members are able to perceive their direct profit incentive.

There are two questions that deserve special attention. One is the development of producer prices. It is fairly obvious that profit can be increased not only by cutting costs, but also through price increases that are not commensurate with the costs. The enterprises frequently avail themselves of this opportunity, unjustifiably. Therefore it is a task of primary importance to prevent the enterprises from unwarrantedly passing on the higher production costs due to mismanagement. When the market accepts the unwarranted price increase or additional production cost, and there are examples of this happening, it transforms a part of the resulting profit into wages and triggers an inflationary process in the consumer prices as well. Primarily the functioning of the systems of economic management and regulation must ensure that unwarranted price increases will not occur. But it is also necessary that the economic units do not resort to price increases as the first and obvious solution, instead of choosing the somewhat more difficult, but safer and more permanent, course of increasing their profit and realizing their incentive by reducing their costs. It will do no harm to make both producers and consumers aware of this in the course of our political work.

The other question that deserves special attention is the problem of regulated and nonregulated wages or income. Although mainly pay-level regulation has significantly removed the restrictions on the wage fund's use, we still find that income disbursed not as wages essentially exceeds the wage level. (Wages paid to enterprise work associations may be charged to cost, for example.) This holds true even if we take into consideration that workers earn this income by working after their regular hours and on their days off. I do not wish to debate on this occasion whether or not they do more work for this income. But when the work could have been completed during regular hours, it is clearly objectionable to let employees work after their regular hours simply because such work, in a different organizational framework, can be paid much better (and the employees are able to earn more). This means, among other things, that cost-sensitivity is not yet strong enough in spite of all our efforts, or full realization has not yet sunk in that the additional cost worsens the entire enterprise collective's prospects of obtaining raises. The wages paid under any pretext reduce the total profit of the enterprise or plant. It is a known fact, of course, that there is a need for the work organized within enterprise work associations, and that it is often cheaper than in the past, when

mostly it had been farmed out to other organizations. But work is frequent that distorts the interest relations because regular working hours are not being utilized adequately. I am convinced that such work adds to the costs (also because capacity is not utilized suitably during regular hours) and diminishes the entire collective's prospects of better pay.

There is every indication that we will not be able to dispense with pay regulation within the foreseeable future, especially because of the need to ensure economic equilibrium, and due to differences in the economic organizations' performances and incentives. We need to provide incentives and stimulate performance with the tools of regulation. I believe that the system of regulation introduced in 1985 is a significant step because it has forged a close link between [enterprise] income regulation and pay regulation. It makes possible the more prudent use of productive factors than heretofore, higher wages and salaries on the basis of disciplined work, and mainly the assertion of the performance principle from which we all benefit.

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HUNGARY

RESULTS OF ELECTION OF DIRECTORS STUDIED

Budapest PARTELET in Hungarian No 6, 1985 pp 23-26

[Article by Jozsef Olah, chief of the Legality Main Department at the Ministry of Agriculture and Food: "The Lessons of Electing Directors"]

[Text] Many articles have appeared in earlier issues of PARTELET on various questions in conjunction with changing over to the new forms of enterprise management. The exchange of views among party workers and economic managers, on what they regard as the advantages of broadening the forms of enterprise management, and on the difficulties and the party organizations' tasks in conjunction with the introduction of these new forms, has likewise attracted much attention.

The contributors to the debate have clearly seen that perfection of the system of economic management and the introduction of the new forms of enterprise management require careful preparation. They have warned against on-again, off-again solutions and have emphasized the political nature of this work, and the importance of taking nuances into consideration. The six-month debate has raised also questions that cannot be answered in advance, because the answers to them must be condensed from practical experience.

On the basis of the experience gained at enterprises in agriculture and the food industry, I too support the view that the lessons from preparing and carrying out the changeover to the new forms of enterprise management must be discussed frankly, otherwise the changeover will not strengthen the willingness to reform, but will merely dredge up old conflicts, generate new irregularities and hamper everyday operations.

On what do I base all this? One example will suffice. By the beginning of May, 152 of the enterprises within agriculture and the food industry held an election to choose their director. At five of the enterprises it was decided not to confirm the previous director in his position. The election result at one of these five enterprises had to be invalidated for a violation of legality, because a person who took part in the balloting as a representative of the workers' delegates did not have the votes necessary for a seat on the enterprise council. Many things had been clarified by the time the second round was held. The new balloting confirmed the director in his position. From this very edifying example it is important to note that the preparations cannot be hurried, and discussions with the people waived, by citing urgent work or other reasons.



The case itself, as I have indicated, has been very edifying, for the local as well as the higher state and political leadership. Such an example, of course, does not obscure the fact that at most enterprises the changeover to a new form of enterprise management, the election of the director, was preceded by lengthy and careful preparations. Perhaps it will be of interest if I describe in general outlines what kind of preparatory work was conducted, and how the ministry aided the changeover to a new form of enterprise management. If for no other reason, this will be useful already because the enterprises in agriculture and the food industry are among the first ones to change over, whereas the enterprises in the other sectors (according to the pertinent documents) still have nearly 18 months to change their system of enterprise management.

The leadership of the Ministry of Agriculture and Food began plan-conforming and systematic preparations nearly a year ago, in cooperation with the competent agencies and enterprises. In this work we are relying to a maximum extent on the experience that we gained in the cooperative movement. We knew that the changeover would go smoothly if the ministry, the appropriate territorial agencies and federations, and the enterprises' economic managers and social leaders "saw eye to eye" as soon as possible. This is why preparatory work began already in the middle of last year. In each megye, we thoroughly briefed the directors of the enterprises concerned on the essential questions in conjunction with the changes in the system of economic management. Representatives of the party committees and councils also attended these briefings. An important question was what form of enterprise management the individual enterprises were to employ. There are uncertainties even today on how to interpret the guidelines on this question. Last September, in accordance with the guidelines, we prepared a draft proposal listing the enterprises for which we recommended management under state supervision, respectively self-management (where an enterprise council, respectively the general meeting of workers or the meeting of the workers' delegates functions as general manager). We then reconciled these lists with the party committees and sectoral agencies concerned. Accordingly, 18 enterprises will remain under state supervision; 173 will have enterprise councils; and at 57 enterprises the general meeting of workers or the meeting of the workers' delegates will function as general manager. We published the proposed preliminary lists of enterprises by forms of management in MEM ERTESITO. Twenty-four of the enterprises objected to their preliminary classification, and the objections of 23 were sustained.

At this point, allow me to digress briefly.

In an article entitled "Enterprise Independence, From the Enterprise's Viewpoint" published in the May issue of PARTELET, Tamas Beck makes some critical comments on this mode of assigning enterprises to forms of enterprise management. He finds fault with the fact that "this exceptionally important question in conjunction with perfecting enterprise management is decided by agencies other than the enterprises, and the latter have only the right to file objections."

This is indeed so. The methods, of course, are debatable. But, in my opinion, we had to start somehow. Undoubtedly, the question of whether the enterprise or its supervising agency prepares the proposal is also of political and professional significance. But the emphasis nonetheless must be on whether or not

the proposal is suitable in terms of its content. The enterprise's role in this respect must not be underestimated: if the enterprise exercises its right to file objections, if it studies the question meaningfully and its objections are realistic, then the decision will be a good one, regardless of who initiated it.

To aid the enterprises' tasks in conjunction with the changeover to a new form of enterprise management, to solve the arising problems properly and uniformly, to comply with the statutory regulations, and to perform the duties of the founding agency, we have assigned a ministerial commissioner to each enterprise, from among the officials and department heads of the Ministry of Agriculture and Food, the sectoral trade unions, and the State Farms National Center. A small coordinating committee has been set up within the Ministry of Agriculture and Food, to coordinate the work of the ministerial commissioners.

"Command" of the changeover within each enterprise is the task of a steering committee that functions under the supervision of the trade-union committee. We have requested that the preparations for the new phase become a common cause within each enterprise, independently of the steering committees. The steering committees must see to it that as many workers as possible become acquainted with the essential questions of the economic management system's further development, especially with the independence that the new forms of enterprise management offer, and with the greater responsibility that this independence entails. We have requested that the steering committees train the collectives for their greater role, but make them aware also of the risks involved. The collectives must elect only after careful deliberation their representatives to the enterprise council, meeting of delegates or the elected management.

Each enterprise has drafted a plan of measures to prepare, politically and organizationally, for the new forms of enterprise management, and the work according to this plan is proceeding well. The plans specify the effective dates of the changeover. At enterprises under the Ministry of Agriculture and Food, the schedule has been as follows: 1 enterprise has changed over in January 1985; 6 have changed over in February; 77, in March; 68, in April; 34, in May; and 19, in June. This gives a total of 205 enterprises that have changed over so far.

In accordance with the plans, 152 of our enterprises have changed over to a new form of enterprise management by the end of April. An enterprise council functions as general manager at 116 of these enterprises; the meeting of the workers' delegates, at 23 enterprises; and the general meeting of workers, at 13. The enterprises that have changed over to a new form of enterprise management have a combined work force of about 160,000. The workers' participation in the preparations and elections was over 75 percent at the enterprises where the enterprise council functions as general manager, and over 80 percent where the general meeting of workers or the meeting of the workers' delegates exercises such authority. These favorable ratios of participation were accompanied by strong activity, a clear indication of which is that the candidates proposed by the nominating committees have been elected at 60 percent of the enterprises that have changed over, while one to four new candidates were elected at each of the remaining enterprises. At the enterprises where the

general meeting of workers or the meeting of the workers' delegates functions as general manager, essentially the candidates proposed by the nominating committees have been elected to the management.

Although the period of preparation has been relatively short, the enterprises' wider authority and increased responsibility, and the functioning of their self-managing organs, are being received with understanding after the initial uncertainties. The experience with the changeover to the new system of enterprise management has been favorable in agriculture and the food industry: in a good political atmosphere, and in accordance with the requirements of democracy and legality, the enterprises have chosen representative bodies and directors willing to employ the form of enterprise management that offers greater risk and wider opportunities.

Attention has focused particularly on the election of directors. The fairly great uncertainty on the part of both the directors and the collectives is understandable and justifiable. On some questions the problems are indeed acute ones, because we have not found good solutions to them as yet. One such problem: If the former director has not been confirmed in his position and a new director has not been elected as yet, how can the enterprise's smooth operation be ensured?

According to the experience with the elections to date, reception of the new solutions has been mixed and has not been free of extremes either. Two views may be generalized. One view held that the establishment of bodies to make strategic decisions did not widen enterprise independence, and even further limitations were being placed on the chief executive's decisions. The other view objected that the change came at the wrong time, because management was being weakened in a difficult economic situation; instead of rising, therefore, performance would continue to decline. However, we must realize that the new solutions want to strengthen management, rather than weaken it, and to assign a greater role to the chief executive. Not to mention that the collective's confidence is by no means worse than the traditional practice of appointments.

In years past, some enterprise directors envied their cooperative "colleagues," the chairmen of the agricultural cooperatives, for their independence. This is true particularly of the directors who headed enterprises operating within trusts. But there was one thing they did not envy the cooperative chairmen for: their having to stand for reelection every five years. Today, most state enterprises already have, or will soon get, all this. The directors who have been confirmed in their positions, our one-time debating partners, now know with certainty, and not merely suspect, that the changes are not directed against them, but are for them, for the collectives and for us all.

An analysis of the situation of those directors who have not been confirmed in their positions, of their previous activity and personality, indicates that no two cases are alike. Why had the competent collectives decided to replace them as directors?

Since the decisions were arrived at by ballot, there is no certain answer to this warranted question. But there are a few things worth noting:

1. Some of the directors who have not been confirmed in their positions had practiced a type of one-man management that the collective did not appreciate, although the directors had not spared themselves either, and their management had been successful.
2. In one or two instances, the preparations within the enterprise--particularly the director's own activity--were unsuitable and unable to "rise" to the importance of the statutory meeting.
3. Two or three of the directors had been close to retirement age, inside replacements--presumed to be better--had been available, and therefore the change was not postponed.

In any event, it is interesting that up to now the directors whom the collectives have not confirmed in their positions were not the chief executives of the weakest enterprises. This indicates that economic success in itself is not enough, and that the collectives attach great importance to the director's behavior and to the atmosphere at the workplace. And this is only natural, because a person spends a large part of his life at his workplace, and it is not at all indifferent how he can achieve his objectives and develop his creative abilities.

It is important also from another point of view that we consider the fate of the directors who have not been confirmed in their positions. We started out from the principle that the director who has not been confirmed in his position may continue to direct the enterprise with full responsibility as managing director, until the new director is elected. However, the initial experience indicates that this appears to be a questionable solution in some places, because cooperation becomes difficult. The director, understandably, is preoccupied with his own future; and those who voted against him give expression to their feeling that they do not want to see him around. But it may take as much as three or four months to fill the position by inviting applications; that is too long and causes a break in the continuity of management. The solution seems expedient to terminate the director's employment immediately, with pay for the statutory period of notice, and to appoint the deputy director as acting director, until the vacancy is filled by competition.

The changeover to the new forms of enterprise management is taking place in 1985 and 1986. With the changeover itself, however, the work will not cease because--as we have mentioned repeatedly--the objective of developing the new forms is to make both central management and enterprise management more efficient. It is especially important that the party and mass organizations at the workplaces systematically help to solve the problems. Continuing agitation and propaganda work, and organized further training are necessary to impart substance to the new forms of enterprise management. Several thousand blue-collar workers, the heads of the organizational units, and the director must jointly learn in the course of everyday work the most effective methods of self-management, and develop the efficient operation of collective and one-man management. But this requires--as also the lessons of electing directors have revealed--a change as well of the present attitude and practice, within the enterprises and in their "environment" too.

HUNGARY

MACHINERY, EQUIPMENT LEASING ACTIVITIES DISCUSSED

Everyone Does It Differently

Budapest FIGYELO in Hungarian No 24, 13 Jun 85 p 4

[Article by Maria Demcsak]

[Text] The Hegyalja Clothing Cooperative is leasing a modern ironing machine through the Hungarian Foreign Trade Bank. The Italian firm Locafit is asking 120 percent of the value of the machines as a 5-year leasing fee in foreign exchange.

Interinvest purchased handkerchief weaving machines worth 42 million forints from the Soviet Union and the FRG. They leased the machines to Rabatext for 5 years. The leasing fee for 5 years is 149 percent of the original value for manufacturing machines imported from capitalist countries and 136 percent for the Soviet machines.

The SZIM [Machine Tool Industry Works] subsidiary enterprise Leasing transferred a CNC center lathe manufactured by the parent enterprise to the Matravidek Metal Works for 4 years. The leasing fee paid during the 4 years is 2.7 times the original price of the machine.

The Machine and Parts Factory of the Paper Industry Enterprise got a milling machine prototype from the Csepel Works. The lease is for 3 years, the leasing fee to be paid continuously totals 100 percent of the price of the machine.

Leasing fees here vary on a scale extending from 120 to 300--as percentage of the acquisition price. There are no such differences in the sharp competition in the Western countries. Leasing fees do vary from country to country because of the different interest rates--and only because of them--but their value moves around 120 percent. So why is it that here, despite the gradual spread of leasing, the fee conditions of the managing units--managing under differing conditions--are not all alike.

If Import...

In the case of "import leasing" foreign trade enterprises generally take care of leasing the machine selected by the producing enterprise. Machines and

equipment can be leased from abroad only if the Ministry of Foreign Trade has issued permission to sign a contract to do so. And to get authorization one must get a recommendation by the Hungarian National Bank or the Hungarian Foreign Trade Bank. The bank continually checks the enterprise to see if it is delivering the promised export or generating the promised import savings. If not, then the bank levies on the enterprise the penalty fee included in the contract. But from the viewpoint of what we want to say the mediating role of the bank is substantially more important.

In the recent past the West German leasing firm Mietfinanz and the Hungarian Foreign Trade Bank entered into a joint enterprise. Mietfinanz will purchase and lease to the domestic customer machines and equipment selected by Hungarian enterprises, with the mediation of the Foreign Trade Bank, through its representatives abroad. The bank is in contact not only with Mietfinanz but also with 6-8 additional Western leasing enterprises. Its mediating role consists of seeking the financier offering the most advantageous conditions, thus it makes them compete. The Foreign Trade Bank does not finance leasing deals, it only mediates them!

It is no accident that out of the numerous forms of leasing the Hungarian Foreign Trade Bank embraced this one, although it must also guarantee that the fee will be paid. The machine remains in the ownership of the foreign leasing firm until the expiration of the leasing time. During the 5 years--the maximum leasing time permitted--the leasing fees paid by the bank in foreign exchange "drain away," but in the meantime the export receipts may exceed the total of the fees many times. In general the leasing fee is 120 percent of the original price, and this is what it costs the Hungarian renter. We will see later that from the viewpoint of the renter this is the cheapest leasing, but of course only as long as he does not buy the machine on expiration of the leasing time.

The import leasing business done through the banks (MNB [Hungarian National Bank] and MKB [Hungarian Foreign Trade Bank]) is a large volume business, but with all its advantages the allotment which can be turned to this purpose is not used up. The reason may be lack of entrepreneurial spirit, the numerous restrictions of the regulator system, lack of confidence and--above all--fear of export obligation and penalty burdens. But let us go on and look at the second most advantageous form of import leasing from the renter's point of view, when the machine comes into the country as the property of a financial institution with independent commercial rights, which then leases it to the customer. One such institution in Hungary is the Interinvest specialized developmental financial institution established by the Hungarian Foreign Trade Bank and 43 foreign trade enterprises. The institution leases the imported machines owned by it for fees of 140-150 percent. Among other reasons it can do this because neither the property tax nor the accumulation tax have to be paid on its fixed assets. It establishes its leasing fees in such a way as to provide cover for amortization costs, for the refinancing interest rate, its own overhead and risk. The latter represents 1-1.5 percent.

The financial institutions also deal with import leasing indirectly. They do this by purchasing machines brought in by enterprises with foreign trade rights and commissioning a third, intermediary firm with leasing out the item in return for a transaction fee.

If Domestic...

In addition to the "little banks" other small enterprises and subsidiaries also deal with leasing machines manufactured domestically: e.g. the Machine Industry Special Service Enterprise, Comporgan, the Machine Tool Subsidiary of the Csepel Works, SZIM Leasing, the Mester-Globus subsidiary, etc. For the most part a parent enterprise has set up a service type enterprise in order to expand the market for its own products. In addition a significant percentage also acts as mediaries for machines owned by others or even for used machines. When the leasing contract is signed they purchase the machine needed with their own capital and transfer it to the customer for 2-5 years for a 120-300-percent fee.

The lease conditions differ among the leasing enterprises depending on whether they belong in the normal, technical development or commercial enterprise category. Up to the end of last year it was advantageous for the technical development enterprises that they could put income from the lease fees into their developmental funds and the 40-percent amortization remained with them as well. Since 1 January 1985 they must account for the lease fee as sales receipts on which they must pay a straight tax as well as paying accumulation tax and property tax, like the other leasing enterprises. The commercial service enterprises can record the fixed assets which are the subject of the lease among their stockpiles. The burdens connected with this are substantially smaller in their case.

According to the old regulations the small enterprises managing according to enterprise conditions found it a burden to pay in the 40 percent amortization because only by charging a relatively high leasing fee could they avoid a reduction in their fixed assets property. They included in their leasing fees a 14-percent interest rate, the depreciation and generally an 8-percent return. Some of the enterprises have high capital burdens in general, and this also increases the percentage of the leasing fee. After introduction of the accumulation tax and the property tax they had to take into consideration additional expenditures. Even with increasing profitability their developmental possibilities are decreasing more markedly than they did under the 1984 regulations. With an average leasing fee of about 300 percent they might be able to develop further, however, an increase in fees of this magnitude would not help in expanding such activity, indeed it would result in its curtailment.

Should we be happy about the spread of enterprises which mediate leasing deals and are backed by a financial institution or a financier? In this case the fixed assets could go through the leasing deal in such a way that the state could not tax them even once.

We have already heard a lot about unsuccessful attempts to encourage the trade in used machines. More and more enterprises would like to get rid of their surplus machinery and equipment. Others, primarily small enterprises, might increase their production significantly with the aid of this equipment. With the shortage of developmental resources leasing appears to be a good solution. The leasing enterprises tried that until they discovered that with repeated transfer of the ownership rights and with the accumulation and property tax

paid every time the used machines become so expensive that an enterprise performing this activity, very desirable from the viewpoint of the national economy, does not make a net profit but rather suffers quite a loss.

#### If A Cost...

Perhaps more significant than the frequently cited advantage of leasing, the fact that one can keep on developing without a large one-time expenditure, is the concession to the enterprises using the leased machines that they can treat the leasing fee as a cost. It follows from this that it does not appear in their balance sheet as a fixed assets value and so they do not have to bear the burdens connected with this. Forints accounted for as a cost or accounted for in the interest fund [erdekeltsegi alap] have a one to two relationship to each other, so up to a leasing fee of 200 percent they can sign a contract without deliberation, presuming that the customer exploits only this advantage of the deal.

The customer operates the machine during the time of the lease, which can increase production to a significant degree, and this increases the interest fund. And this is not even mentioning the advantages according to which, for example, various services are provided along with the lease during the time of the lease. The burden deriving from leasing does not hurt one's ability to get credit either, nor does it influence other investment ideas.

The decrees state only that the leasing fee can be accounted for as a cost. In practice the enterprises generally enter it among the undistributed costs. The advantage of this is that up to a certain sum the increased fee burdens can be assumed without influencing profitability. It is difficult to draw the line, for the well known problem is that enterprise management is not cost sensitive. On the other hand, beyond a certain point the enterprises cannot figure out which is more economical for them--development or leasing. Making use of the latter creates a constraining situation. For example--although this is not a general phenomenon--the Machine and Parts Factory of the Paper Industry Enterprise uses leased machines for parts manufacture. The parts made in this way are absolutely necessary in the other units of the factory. If they were unable to manufacture these themselves by means of leasing, the only solution would have been capitalist import. The parts manufactured in this way save significant import, not to mention the fact that quality and volume have improved significantly with the aid of the new machines, because we are talking about peak technology.

#### Contradictions

What has been said thus far gives only a simplified sketch of the Hungarian practice, the reality is much more complicated. In general it can be said that import leasing is limited by the authorization system and by the accounting regulations--despite the fact that import leasing is needed. It is probable that these brakes were built into the system so that the enterprises would give careful consideration to the conditions of the leasing fees "paid by the state" in foreign exchange, since accounting for the leasing fee as a cost does not force them to do so.



The interesting part of the matter is that in 1985 the basic rules for import leasing were extended to domestic machines as well. A domestic enterprise leasing out equipment has an opportunity for accelerated amortization--they can write off a maximum of 30 percent per year--while the customer must account for the value of the assets activated on the basis of the keys prescribed in the norms at the time of taking over the machine, presuming that there is no remnant or redemption value.

We can find quite different conditions when looking from the ownership point of view. It can be seen from the foregoing that because of different taxation rules the financial institutions can lease out machines and equipment under more favorable conditions. For the time being units in the enterprise sphere are encouraged to cut back their leasing activity because of the increased tax burdens.

The authorities are well aware of these contradictions, preparing to even out the differences in conditions. Certainly there is a need to moderate or end the accumulation tax obligation for leasing machines in order to encourage leasing. The accounting for amortization also requires a significant liberalization. In order to increase the leasing of used machines the practice of multiple taxation should be abolished. Then we might see firms created which would deal with trade in used machines as a basic activity.

It is a matter for thought that in an economic environment serving import replacement Hungarian enterprises can acquire imported machines under conditions that are more favorable than when acquiring domestic machines. It can be futile to manufacture the needed machine type here at home at the same technical level if the enterprises do not even weigh the two possibilities, when such a difference exists.

In any case it would be desirable if leasing should develop in accordance with market needs. If we have decided that leasing is needed and if we want to make use of its advantages then we must see to it that the business policy of the enterprises dealing with leasing are regulated by supply and demand and not by the given accounting system.

#### Taxing or Leasing

Budapest FIGYELO in Hungarian No 24, 13 Jun 85 p 5

[Article by Laszlo Kovacs]

[Text] Relatively few enterprises in Hungary are dealing with the leasing out of machines and equipment owned by themselves or others as a chief activity. The crucial factor for the operation of leasing enterprises is the capital which can be turned to machine purchase and their chief source of income is the leasing fee, which is a percentage of the capital invested depending on what services are provided (installation, instruction, service, programming, providing technology, etc).

Introduction of the accumulation and property taxes had a very unfavorable effect on these enterprises since it devalued their invested capital by 18 and

3 percent. The funds which can be turned to investment are reduced by this much for every single investment, even when making use of the amortization generated. At the same time the capital burdens must be borne for all of the financial sums used from outside sources, which means a relative increase in the price of the capital burdens. Neither the earlier nor the present regulation allow the realization of the most important management condition for these enterprises, namely that the invested capital is at least returned. Their situation is also made difficult by the fact that the industrial "leasing people" do not have their own resources. So they are forced to work with capital which can be obtained from various financial institutions with fixed conditions. It is also an essential point that the leasing enterprises are not industrial producers but rather are performing a unique industrial service activity. They can increase their receipts only with increasing capital investment. Because of the value judgment of the market it is not possible for them to realize the increased tax burdens by raising the leasing fees. And this even without mentioning the fact that their leasing fees cannot compete with the fees of those managing organizations and financial institutions which need not bear such tax burdens and which the regulations thus put into a virtual monopoly position.

A significant number of the leasing enterprises also deal with leasing out used machines. But the tax burdens which pile up on used machines increase the sale price to such an unrealistic degree that under present conditions the enterprises can make such deals only at a loss. There is certainly a need for an expansion of the activity of these small enterprises at a time when we must grasp every developmental possibility to boost economy. But if they are to continue to practice their present leasing activity and not go into some other, more profitable service then the leasing rules which have appeared thus far must be made uniform.

By exempting them from the accumulation and property taxes it would become possible for all of the amortization to be invested. Then we would not have the paradoxical situation that the property of an enterprise gradually decreases with increasing investment.

If leasing is to function as an efficient economic policy tool and serve definite developmental goals then use must also be made of preferred credit and possibilities to get bank capital. In this way it would be possible to introduce leasing into the branches which are essential from this viewpoint.

With the spread of preferred medium-range amortization advance credit the enterprises dealing with leasing would have the opportunity of making use, 2-3 years in advance, of a certain part of the capital being generated from amortization. And this might accelerate technical development.... If the enterprises themselves could establish the depreciation write-off for the new or used fixed assets being leased out during the period of the lease then they would have the opportunity of changing (increasing or decreasing) the annual magnitude of the write-off according to their interests. In essence this idea defines the provisions in effect more exactly.

At present, with the accelerated amortization of a maximum of 30 percent per annum, the value of a machine can be completely written off in 40 months. At

the same time, a tool which wears out in more than 3 years is considered a fixed asset. It would be technically easier for accounting if the annual depreciation that can be recorded for some fixed assets were increased to 33 percent of the gross value.

It would be advantageous if the enterprises could generate an accountable annual depreciation write-off in a way deviating from Decree No 1/1985 (I 24) OT-PM so that they could calculate the amortization for the entire year on the basis of the value of the fixed assets existing at the beginning of the year and then correct this in the course of the year according to actual stocks, taking into consideration the gross value of the opening stocks each quarter. Actually, this would give the leasing enterprises the opportunity to mobilize their developmental assets earlier--if they have adequate financial cover--and thus the customers too could have access to the desired machines and equipment sooner.

If the managing organization leasing out equipment were to transfer the machines and equipment constituting the object of the lease to the ownership of the customer after the expiration of the contract for the sum of the lease fees paid thus far, without other compensation--the equipment having zero value either theoretically or practically--then it could be activated at this value! Since the interest fund [erdekeltsegi alap] must finance the activation, the sum to be paid in this case would be negligible.

The leasing customer would have to activate the fixed assets at a greater value only if they had a value deviating from the foregoing. In this case the activation value would agree with the remnant value established in the contract (i.e. the book value in the case of prorated amortization) or with the purchase price (in the case of partial or complete amortization deviating from the prorated terms) or with the redemption cost (in general in the case of complete amortization). The redemption cost, on the other hand, does not burden the interest fund.

#### Austrian View

Budapest FIGYELO in Hungarian No 24, 13 Jun 85 p 5

[Article by M. D.]

[Text] Hungarian experts could become acquainted with the financing practices of Osterreichische Leasing, a financial subsidiary of the Creditanstalt Bankverein, at a symposium held jointly by the Austrian leasing firm and the Cooperation Department of the Hungarian Chamber of Commerce.

Osterreichische Leasing has been an important business partner of the Hungarian National Bank and the Hungarian Foreign Trade Bank for 3 years already. The Austrian firm has built up a thousand business contacts with about 50 Hungarian foreign trade enterprises through the mediation of these two banks. Of the bids exceeding 2.5 billion schillings, deals worth some 500 millions have already been made.

According to the philosophy of the firm only things whose value decreases should be leased, only goods whose value increases should be bought. They could hardly understand the Hungarian experts when they inquired what sort of guarantees were built into the contracts regarding the possibility of the leasing customer taking possession of the machine after expiration of the lease time. In their practice this desire contradicts their own interest and the interests of the customer.

Enterprises can produce in accordance with the ever increasing quality demands only if they use production equipment representing the newer technology, or are able to produce new products in the course of innovation. Thus, after the expiration of the lease time, they should either give back or pass on the machines and equipment used thus far, and sign a new contract with them to lease more modern tools.

In general a buy-back value is stipulated in Austrian leasing contracts. If the Hungarian partner enterprise should want to buy the machine it had leased after expiration of the lease period, it is possible, of course. But they cannot build into the leasing contract any sort of guarantee in connection with transfer of ownership, because the Austrian tax laws forbid it.

The conference also addressed the difficulties faced by the experts of the Austrian leasing enterprise when they are trying to satisfy Hungarian orders.

In the first place, because of the authorization and approval procedures connected with leasing import machines and equipment, the Hungarian National Bank or the Hungarian Foreign Trade Bank ask them for bids well before the deal is made. Because of likely changes in costs and interest or rates of exchange they can give only an approximate figure. After the deal is closed this can become a problem if they deviate from the bid, not to mention the fact that the Hungarian partners prefer a fixed leasing fee in contrast to the flexible leasing fee that is so widespread in Austrian practice. The fixed leasing fee is a good bit more expensive because its size must be determined at the time of signing the contract and so the risk factor has to be built into it. In contrast to this the flexible leasing fee can be adjusted to the cost of money on a current basis, and so it is cheaper for the leasing customer.

The leaders of Österreichische Leasing would also like to change the rather widespread practice that they are brought into leasing deals with Hungarian partners only if a prior agreement has been made for machine purchase with the foreign manufacturing firm. Sometimes they could get more advantageous purchase terms with their basic knowledge of the markets. Of course the sales prices of Western manufacturing firms also differ depending on who the customer is.

And there is one more very important difference to which the Austrian firm called attention. In the West it is the custom to adjust the lease period to the amortization of the machinery and equipment. In Hungary they have maximized the leasing period at 5 years, regardless what value or use value the tools represent. Nor is it a matter of indifference from the viewpoint of the leasing period whether the equipment is used in one, two or three shifts.

HUNGARY

## MORALITY OF ENTERPRISE BREAKUP QUESTIONED

Budapest NEPSZABADSAG in Hungarian 13 Jun 85 p 5

[Article by Laszlo Karcagi: "Is Divorce Ethical?"]

[Text] The situation is delicate, almost painful. One can imagine. Despite the tooth and nail protests of the large enterprise the provincial factory--exploiting a possibility given within the framework of the further development of enterprise guidance--has reported that it wants to become independent, wants to free itself of the bonds of the large enterprise. The request was justified in accordance with the system and method and sent to the founding authority, i.e. the ministry. Of course, the enterprise center also prepared its own counter-document and sent it to the ministry, where they are now trying to decide--with a pro and con comparison of the arguments and the local and national economic interests--where to go from here.

So far there is no decision. If the provincial factory separates, it will then probably become a strong competitor of its former master. So it is no accident that both sides are expressing themselves with extreme caution in this transitional, uncertain situation and are really unwilling to say a bad word about the other--because if there is to be a divorce, at least it should be civil. So it is rather difficult to ascertain how and why things have degenerated to this. And yet we are airing out the internal "family" affairs of the Ventilator Works--this is what we are talking about--and its Hajdunanas factory unit because we feel that they could be instructive for others as well. We will avoid taking a stand for either side and we will try to avoid even giving the impression that we want to influence the decision of the chief authority. Still we feel that the open questions of the case are among the dilemmas very much in the foreground of our economic life today and so it is worth thinking about them.

### Surprising Deficit

That production conference has been talked about for a long time in the Hajdunanas factory unit of the Ventilator Works. Emotions suppressed for years were liberated, and Lorant Farkas, the recently appointed new director of the works, only shook his head when they then enumerated all the actual and imagined indignities which the center had once committed against the provincial factory. And although the new director was innocent in all this

personally, still he could do no more than assume the "sins" of his predecessors. But he described the serious situation the entire large enterprise is in now. The separation of the Hajdunanas factory unit in this situation would be catastrophic, 150 people would have to be discharged from the remaining factories immediately, they would have to give up about 90 million forints worth of capitalist export and would have to take a number of other painful measures, measures which would weigh heavily on the remaining collective.

In her response Mrs Papp, Judit Bernad, leader of the factory unit, formulated very sincerely the question which distressed her and which surely had caused her many sleepless nights, together with the determination to become independent: Is it ethical to abandon the large enterprise in the present tight situation? Is it not disloyal to take off at the time of greatest troubles?

Because there is no doubt that there is trouble. The Ventilator Works has been operating at a deficit for years. The development seemed balanced in earlier years and almost everyone was surprised by the 35-million forint deficit which appeared in 1983. Of course, even earlier there were those within and without the factory gates who said that something was not right about the Ventilator Works, that the enterprise was not moving in the right direction. Believe us, we do not like to say this, but just for the record, 3 years ago NEPSZABADSAG, for example, criticized some of the leadership methods of the then director of the enterprise, personally and by name. But at the time most felt that the deficit was only a one-time stumble, and they predicted a profit of 39 million for 1984. Quite the opposite happened: the balance for the first half of last year showed already a deficit of 20 million. It was then that they began to study the real situation of the works more seriously and it turned out that the balance sheet reports of earlier years were, to put it mildly, excessively "well-groomed," hiding the problems which had been piling up for years.

Now the Ventilator Works has frankly disclosed the losses, settled them from its own resources, and a large number of the top leaders of the enterprise have sought work elsewhere. The new leadership staff, arm in arm with the remaining old staff, has worked out a promising program to get back on their feet. The program, of course, did not prescribe a victory procession, it prescribed very hard work, actually doing without in the first years. There would not be much money for development or to raise wages. But in exchange--it promised--the enterprise's house would be in order in a few years and a faster and more promising growth would be possible than at present.

#### On Its Own Path

The ink was hardly dry on this plan when those in Hajdunanas announced that they wanted to separate. Exactly the Nanasians, exactly the factory unit on which perhaps the greatest tasks would fall in carrying out the program for recovery. There are those who feel that this was ingratitude.

Indeed, who would dispute that the Nanasians can thank the collective of the large enterprise for very much? In 1960 there was only mud and pasture where the factory unit stands now. Now there is a nice plant with large, modern

buildings here employing 500 people. It is true, of course, that this factory unit also fell into the errors of provincial industrialization and investment of the 1960s and 1970s. They built the offices and the social facilities and the factory hall. And then, suddenly, the money was used up. There was no money for machines or equipment, so for the most part old machinery was moved here from Budapest. Today, a large proportion of the machines of the Hajdunanas factory unit represents only a theoretical value. But one can still produce on them and because of them several hundreds of people have mastered a trade and obtained a secure living here in the past 25 years. And this is a big thing!

In the course of our interviews the people in Hajdunanas recognized and confirmed all this, but still they feel that in the course of time they have paid back many times over their debts to the collective of the large enterprise. After the initial uncertainty the factory stood on its own feet, with the patronage of the center. While the Ventilator Works as whole was a deficit operation the Hajdunanas factory has been operating at a nice profit for some time and its performance is increasing dynamically.

All this can be attributed to the fact--and this is now the opinion of the Budapest center--that a talented, ambitious leadership staff grew up in Hajdunanas and trained the intelligent, work-loving skilled labor force making up 80 percent of the workers. One could always count on this factory unit. They could always send to Hajdunanas the difficult priority jobs demanding high quality. Once they had undertaken something there, they always delivered it at the promised time, with the promised quality.

In the meantime the Nanansians began to forge their own path. Over the years, little by little, they took over minor tasks and functions from the center. Ultimately, they obtained the materials themselves, began to make certain business deals themselves, established internal accounting units and--most importantly--did all this well and profitably. They feel now that they could stand on their own feet, alone.

Over the years--with blood and sweat--they have developed a favorable, profitable product structure. They did not do this by appropriating for themselves the better paying products but rather by "magically transforming" the poorly paying ones assigned to them by the center. So that now the customer gladly buys from them, at a higher price than earlier, in larger lots, and on the basis of long-term contracts. This includes products which other factories and factory units of the Ventilator Works declined to work with earlier--because of cooperation problems--and were glad to be rid of at the time. Now these bring a large part of the profit at Hajdunanas together with long-range security for production.

Although the provincial factory kept its head above water even during the hard times--and perhaps this is what hurts its workers and leaders most--it could hardly share in the fruits of its good work. Their wage level, for example, is lower than that of those in the capital by 12,000-14,000 forints, and nothing justifies this, not even the differing professional composition of the workers. It is only that at the time they started at a lower wage level in the provinces and this gap has hardly narrowed over the years.

Nor did the money they produced go to development. In the past 3 years--they say in Hajdunanas--the value of the developments carried out was not even equal the amount generated from amortization. It is characteristic, for example, that in 1983, out of a factory unit profit of 27.2 million forints they had to pay in 24 million to cover the costs of the enterprise center. In 1984, out of a profit of 37 million, the center got 32 million and not much more will remain out of the 46 million profit planned for this year either.

So at Hajdunanas they say that they have already paid for the aid and solicitude received. During the past quarter century their production has been worth about 3.5 billion forints. They have produced a profit of 500-600 million forints, and most of this has been paid into the coffers of the enterprise. So there is no debt to be paid and they feel that if they were independent. Then they could spend the money produced by them on their own development, and thus a new future, brighter than ever before, might open before them.

#### Better as Subsidiary Enterprise?

The other side, the center, evaluates the situation differently. They recognize, for example, that a large part of the machines at Hajdunanas are obsolete, but this is true of the entire enterprise. Indeed--at least according to the figures--conditions are much more favorable than the average at Hajdunanas since about 40 percent of the fixed assets value of the large enterprise is there, although they produce in this factory only 25 percent of the total production value. The value of net fixed assets per worker here is almost double the enterprise average. At Hajdunanas they comment in regard to these figures that buildings, and not machines, make up the larger part of the value of their fixed assets.

They state further that the factory unit profit--used as an argument by those who want to separate--does not give a real picture, because this figure does not contain those costs and obligations absolutely necessary for production such as, for example, technical development, planning, banking costs, etc. Up to now these have been met by the center out of the money paid in to the "big hat."

Over the years the large enterprise--the argument of the center continues--tried to do much to overcome the relative wage level inequity of the provincial factory unit. Between 1980 and 1984, for example, they carried out an annual average wage development of 6.6 percent at Hajdunanas, but only a 4.7 percent wage development in the other parts of the enterprise.

Finally, concerning the anticipated competition: in the capital they feel that healthy competition in the domestic manufacture of air conditioning equipment could not develop after the split. On the contrary: Hajdunanas would get into a one-sided monopoly situation in opposition to the rest of the large enterprise, especially if the factory should gain possession of the fixed assets, casting samples, tools, devices, documentation, etc. worth several tens of millions and stored there for practical reasons. The center sees the solution to be a transformation of the Hajdunanas factory into a subsidiary enterprise--as a form of independence--when the conditions for it are ripe.



## Hard Decisions

We have mentioned here only the main points of debate but contradiction is also characteristic of the other arguments of the two sides. Actually, they give just the opposite interpretation of the same fact. Speaking frankly, we do not envy those now pondering the final decision in connection with the breakup. For they will be deciding the fate of their branch of industry for a long time to come, so they must decide responsibly, after thorough deliberations, evaluating all the pro and con arguments on all sides.

Unavoidably the arguments and counter-arguments overlay emotions, open up wounds and motivate unfamiliar economic and moral considerations. But these should not hide the essence.

On a national economic scale we are now striving to see to it that the enterprises and branches which work well and have "drawing" power should get greater possibilities for development than ever before, while those which lag behind should try to get themselves together and catch up. The economic regulator system is trying to do this with its own tools, with its errors--major and minor-- and the further development of the enterprise guidance system should serve this too. One of the many tools available is decentralization, within the framework of which a number of factories, factory units and plants now have the opportunity to take the path of independent development, to free themselves of many handicaps which held development back, to realize their own ideas. In industry 44 factory units from 36 enterprises have indicated their intention to separate this year. Occasionally, to be sure, they will find that it is better to remain together, that the enterprises and plants can solve the tasks at hand better together, that it is more profitable for the national economy if they stay together.

The standard in these decisions is economic rationality. The solution which best serves our economic goals must win. And whatever is economically meaningful and rational, whatever serves the good of the majority, that probably is ethical as well.

8984

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HUNGARY

## PRIVATE BUSINESS, MERCHANTS FAILING

Budapest MAGYAR HIRLAP in Hungarian 14 Jun 85 p 5

[Article by Karoly Ban: "An Abundance of Failures: Why Did 4,000 Private Merchants Close Up Shop?"]

[Text] During the past year, one out of five private merchants threw in the towel, that is, turned in their operating permits. Why did more than 4,000 close up shop? Why did an estimated 7-8,000 private merchants go bankrupt? Who and in what area made the mistakes or miscalculations? And conversely, what could nourish the unceasing entrepreneurial disposition or misconception, according to which it is easy to "find America" in this country?

At the offices of the National Free Organization of Retailers (KISOSZ) they cautioned me to be diplomatic, because some people even refused to talk to TV reporters for understandable reasons. No one likes to admit his mistakes, and it is particularly indiscreet to inquire about someone's bankruptcy. Well, perhaps I am not a good diplomat, because on more than one occasion I was shown the door. Others were quite accommodating but did not wish to talk about what had happened.

"I would like to forget, Sir," Mrs. Janos Racz said over the telephone; just last October she had given up her fashion boutique in the Ujpest district, franchised by the State Dry Goods Stores (ROLTEX). "I became a nervous wreck, I've been sick ever since, I have not even been able to work. . . ." When I insist she adds: "The rent was too high, and my tax base has grown double. But don't question me: I don't even want to talk about it. . . ."

Tamas Hudetz, a fashion apparel agent, gave up the trade after a year and a half.

"I could take only samples from the private craftsmen, because my agent license did not entitle me to retail the items," he explained. "Under such circumstances, however, the merchants would be fools to spend money on agent's fees. For a while, I maintained high hopes, but after a while I gave up."

[Question] In your opinion, why do so many quit?

[Answer] Because they want to get rich quickly. They invest their modest savings, say 10-20,000 forints, believing that in a month they will have 50,000. But, believe me, this is a naive dream. Just look at the owners of the boutiques. Since restrictions have been removed, they have flooded the market; most of their products--with few exceptions--are third rate, while their prices are extremely high. Business practices like that are tolerated only for a short time.

#### One Doorway, Eight Boutiques

In support of the above opinion, I have heard the saying: "If one opens a doorway on the [Great] Boulevard, eight boutique owners will fall out." As long as there were only three of them at one street address, they were able to get along. Now, however, the many small boutiques eat each other up, claims Dr Janos Valachi, the secretary of the KISOSZ Budapest branch; under these circumstances, even those can easily go bankrupt who are not out merely to take advantage of the boom.

As is known, the decree concerning private merchants was modified by the Presidential Council on 1 July 1982. The new regulation provided great opportunities for private business activities, and a great many people took advantage of them. In three years the number of private merchants increased by 33 percent. By the beginning of 1985 it reached 25,000. The movement in this sector is illustrated by the fact that the number of private merchants increased sharply in spite of the large number who threw in the towel. For example 3,100 in 1983 and 4,000 in 1984 turned in their private merchants' licenses.

Endre Majzik, who also tried his luck as an agent, was among them.

"I have bet on the wrong horse," he admits self-critically. "There were too few commissions. I could earn no more than 6-7,000 forints, and out of that I had to pay taxes and the health insurance contribution, which is higher in the private than in the state sector. Half of my earnings were taken by these two items, so I quickly deserted the sinking ship."

[Question] Where are you working now?

[Answer] I went back to the State Insurance Company, as an administrator. Since then, I have slept better, because I have nothing to lose. . .

Indeed, whoever decides to become a private merchant nowadays takes on great risks. Practice indicates that only the most successful undertakings can stay alive. There is no one to make good of losses, thus most of the closings are connected with uneconomical operating practices. According to estimates, in 10-15 percent of the cases--nationwide this means 7-8,000 undertakings--entrepreneurs go out of business because of bankruptcy. The luckier ones are able to salvage their investments: they either change profile or quickly get out of business while they still have time.

## Disappearing Causes

Very few of the liquidations are due to deaths, retirements, permit transfers to other family members or revocations of permits. Paradoxically, "economic impossibility," or, to use a more direct term, bankruptcy, also appears rather infrequently in the statistics: in 1984 only 610 liquidations were attributed to this reason. If this is so, how come the total number of liquidations is over 4,000? The answer is simple: 2,461 cases of liquidations are attributed to "other" causes. This category includes those cases where the liquidation decisions do not specify reasons. One may suspect, however--and this suspicion is confirmed by the representative organization of the private merchants, the KISOSZ--that cases of bankruptcy are most frequently included in this "other" category.

In a great percentage of cases, permits are turned in because of lack of professional and commercial experience, the overestimation of market possibilities and, last but not least, the extremely strict operational conditions. In the course of a few years, the amount of health insurance contribution has multiplied, and in accordance with the new income tax regulations, the sales tax also rose. Tax and the health insurance contribution take away 65 percent of the estimated earnings. In view of such hardships, only the profitable businesses are worth keeping alive.

"The vast majority of private merchants who have been recently forced to give up their businesses wished to obtain increased earnings respectably, through extra work," explains Dr. Nandor Varkonyi, department chief of the KISOSZ. "Thus they are not the victims of some kind of a swindle. To be sure, there are such victims, too, but their number is not decisive. The failures can have many reasons: poor choice of location, difficulty in obtaining merchandise, the myth of getting rich quickly, the lack of capital, and I could continue. . . . In many instances the merchant is compelled to break the rules: he can obtain goods only by paying bribes, and he is unable to account for this amount in his books."

## Billing Miseries

Since bribery is widely practiced, tax authorities are suspicious, that is, they have other reasons for suspicion. Everyone knows that the regulations concerning bookkeeping and self-certification are not always easy to obey. The merchants claim that the craftsmen do not want to provide bills, while the craftsmen say that the merchants do not ask for bills. At the same time, if the merchant indicates (without bills) the source of his supply on his self-certification--after all, this is required--then the next time he may have trouble obtaining goods from the craftsman thus named. Given the complications inherent in obtaining goods, billing and bookkeeping, the authorities only rarely accept self-certification. What do they do instead? They increase the amount of tax. But since the merchant knows this in advance, he is likely to "under-certify."

This is a thankless situation," asserts Dr Janos Valachi. "Many "beginners" as private merchants turned to us, complaining that they have provided accurate information, yet the tax authorities rejected their self-certifications. They swore that in the future they would know what to do. . . Such turns tend to damage the credit and prestige of merchants; many of them give up because of this. Public opinion still does not accept the fact that high earnings are not necessarily dishonest and that a successful merchant is not identical with a dishonest merchant. . .

The Number of Private Merchants' Permits Turned In

<u>Reason for Turning in License</u>	<u>Year</u>	
	<u>1983</u>	<u>1984</u>
Death	150	185
Retirement	422	466
Transfer of Permit to Assisting Family Member	110	177
Economic Disability	390	610
Revocation of Permit by Authorities	72	169
Other	1,965	2,461
TOTAL	3,109	4,068

12588

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POLAND

## KEDZIERSKA ON DOMESTIC TRADE SITUATION

Warsaw ZOLNIERZ WOLNOSCI in Polish 20-21 Apr 85 p 4

[Interview with Anna Kedzierska, minister of trade and services, by Janusz B. Grochowski: "Trade Without a Planned Optimism"; date and place of interview not given]

[Text] [Question] By deciding to select the Consumers Federation as the minister of domestic trade and services, one can find a certain contradiction. It implies--since you have selected and demanded it, now make it work.

[Answer] This can be considered so. But it is also true that trade presents one picture when seen from the outside and another when viewed from within.

[Question] Is it possible that with the change in office you have decided to defend business?

[Answer] This is far from my position. At the same time I cannot disregard or try to unravel the ills that plague it.

[Question] This should not be difficult. The federation has always had an adequate number of ideas to revive our commerce. All you have to do is to reach out for them.

[Answer] We are reaching out. In everyday practices improving inventory in the organization of trade as well as the incorporation of corrective measures.

[Question] What areas do these corrective measures involve?

[Answer] Very many situations. As an example: how can we achieve a balance of supply and demand, how can cooperation with industry be attained and bank credits for the purchase of raw materials be established. We are wondering in what manner we can influence the fluctuations of the profit margins so that they would not be an incidental phenomenon, but would be based on fundamental principals of economics. We are also considering the question of taxing the business establishments and, although at the present time it sounds somewhat far-fetched, the computerization of businesses.

[Question] That really appears to be a vision into the distant future. What have you been able to accomplish to date?

Answer Not counting the daily struggle in obtaining products, problems which are totally unknown to the consumer, we have introduced the first stage of food price increases to provide a higher margin of profit.

Question Was that necessary?

Answer Certainly! With the steady and relatively low prices it was impossible to even cover the cost of all operations without even a mention of profits. At that there still won't be any. Our prices continue to be low, almost welfare like.

Question Let us come back to results achieved.

Answer In addition, we have established a fund for market development. After lengthy discussions with the union representatives we came to the conclusion that on the average 60 percent of the business establishments will remain open on "free" Saturdays, a fact which is very significant since this was another step in getting away from regulations.

Question It would be difficult to deny the impression that the government put it into effect only after many hesitations and concerns.

Answer That's a compliment for the government. You have to be wary when decisions of this kind can affect 11 million households.

Question But these fears were not substantiated. The customers did not make a run on flour and grain products.

Answer The market as a matter of fact is stable. We should, however, remember that the winter supplies of these provisions in private households are quite substantial. This is indicated by an 85 percent buy out of the current allotment, in addition to the purchases made in the months immediately preceding the institution of rationing.

Question Then evidently, in spite of everything it should be easier now to make further progress.

Answer Business is unequivocally for the elimination of the rationing card system. For us the complicated system of rationing presents an increase in costs and employment of a substantial number of additional employees. Still, the arrival of such a decision is dependent upon the balancing of inventories. Butter presents the least problems. Unfortunately, the supplies of vegetable shortenings is more erratic since it is largely dependent on imports, as we do not cultivate soy beans and produce only a minimum of sunflowers. The situation is even more critical when it comes to animal shortenings.

Question We talk about food supplies but aren't there just as many shortages in consumer goods which are at times available and then disappear from the store shelves, much to the irritation of the public? This happens to be the case with batteries, toothpaste and shampoo.

[Answer] These conditions are the subject of constant arguments not only among the producers and distributors, but also among the departments involved. Some of the manufacturing plants are simply too slow in their response to the market requirements. They prefer long production runs of the same items or in the same colors without too wide an assortment. This has the effect that items have varying marketability and turn over. Some of the products are readily sold while others have to be recalled without even unpacking them because they have no buyers and their warranties have expired.

[Question] How about the panty waistline elastic which incidentally requires foreign exchange funds. Is industry also at fault in this instance?

[Answer] No. But immediately after receiving indicators from industry we instigated inventory control which resulted in retail trade absorbing the total production. Ultimately, trying to find someone to blame is not as important as gaining joint cooperation for finding solutions to our problems.

[Question] Could the accumulation of appropriately large inventories be the solution?

[Answer] But where would you store them? In warehouses which are scarce or at small retail outlets which are already utilized for re-packaging goods? It is not generally known but 84 percent of the items formerly packaged are now being delivered to the outlets in bulk form.

[Question] So then, industry dominates on all fronts. The best evidence of this fact is the poor quality of many products which are produced with much difficulty and ultimately purchased from abroad.

[Answer] This does not mean that we treat this matter lightly. We are making efforts to tighten up our specifications and improve our quality control. Light industry feels that whole production batches should be inspected and only the rejects discarded. We, on the other hand, are of the opinion that it is impossible, for example, to check every pair of socks so, we feel that if a spot check sample is unacceptable, the whole lot should be rejected.

We are also attempting to have the production contracts issued without any options or clauses, with strict adherence to our standard established outline. Unfortunately, the tradesmen still quite often succumb to the pressures of industry.

[Question] -- and whose representatives, arbitrarily, take the liberty to alter the already signed contracts by writing in a disclaimer for the quality of the product in question?

[Answer] In cases of this sort we now rely more often on arbitration, which has resulted in a threefold increase of adjustments in our favor. It is another story that our quality control departments have diminished during the time of the crisis but are now painstakingly rebuilt.



Question Your weakness is a lack of a common attitude toward industry. You will always find some individual who will accept the last piece of trash just to fill up his shelves.

Answer For that reason we are putting a great deal of effort into the creation of a business lobby. The situation has already improved to the point where we don't have to accept every kind of merchandise but only the items which are marketable.

Question I only hope this does not lead to a monopoly.

Answer I am quite sure that this will not happen. Business is dependent on the customers and they through their behavior at the market place evaluate the efforts of industry and business.

Question Aren't these the characteristic qualities of the Fisheries Exchange or the Dairy Cooperative, both of which have exclusive distribution of certain specific commodities?

Answer You bring on an immediate confrontation between words and reality. I am sure however, that an increase in inventories and the establishment of a balance at the market place will undoubtedly result in some changes here also. I personally believe that competition has a healthy influence on business, demonstrating its weaknesses and at the same time stimulating initiative.

Question In the meantime, we have a system of centralized controls extending to a great number of products which virtually impede it.

Answer This system was not instituted to hinder trade but rather to fairly distribute items that were in short supply. Actually, the products in question also fall into the range of government orders which requires the producing facilities to follow a pattern of preferential considerations. As a consequence these have to be subjected to inevitable scrutiny.

Question Must the list of these products constantly increase?

Answer This list undergoes continual change. In fact, we are considering the elimination of a number of products which are presently in adequate supply. Actually, I would also like to see a situation where everybody could drive up to a producer of his choosing and order materials in the quantities desired.

Question Since undoubtedly this is the ardent desire of the Polish people, to what extent are these dreams dependent on the attitudes of management controlling the production of these products?

Answer The position of the government, especially its leadership regarding the market place have changed radically. There is a pro-business attitude within management, and these are not idle words. This is the truth, although this might vary at some individual branches of trade. Our industry has always

enjoyed a preferential status, even to the point when in certain cycles it was even dictatorial. That is why even today, negotiations with industrial managements are so very difficult and in many instances cooperation is hard to achieve. At any rate I feel that present conditions are better than before. My predecessors had a tougher time of it on this score.

Question Can this give rise to optimism?

Answer Not the kind that is programmed, but the authentic kind.

12306

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POLAND

POLISH-AUSTRIAN FINANCIAL TALKS HELD

Warsaw ZYCIE WARSZAWY in Polish 28 Jun 85 p 5

[Text] As part of the preparations for the multilateral Paris agreement, Polish-Austrian financial talks were held in Vienna on 26 and 27 June.

Considerable progress was achieved during the talks, and this could be very significant for the entirety of Poland's guaranteed debt.

Poland was represented in Vienna by the First Deputy President of the Bank Handlowy [foreign trade bank], Jerzy Malec, while Paul Castellanez, Director General of the Osterreichische Kontrollbank A.G., represented Austria. The talks were held in an atmosphere of full understanding.

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POLAND

# NEW SULPHUR MINE TO BE BUILT

Warsaw ZYCIE WARSZAWY in Polish 28 Jun 85 p 2

[Text] The Voivodship People's Council of Tarnobrzeg has chosen Osiek as its location for a new open-cast sulfur mine, which will be a branch of the Siarkopol mine of Grzybow.

The new mine is expected to yield over 1 million tons of sulfur a year. The heat to melt the sulfur there will be supplied by the nearby Polaniec power station.

The new mine will employ about 1,500 people, for whom nearly 300 apartments will be built at Staszow and Polaniec.

The work on the new mine will begin later this summer.

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ROMANIA

MEASURES TO INCREASE COMPETITIVENESS OF EXPORTS DISCUSSED

Bucharest REVISTA ECONOMICA in Romanian No 26, 28 Jun 85, pp 9-10

[Article by Ioan Georgescu: "Increased Requirements for Export Activities"]

[Text] The recent joint plenum of the National Council of Working People and the Supreme Council of Socioeconomic Development will mark, as the party secretary general, Comrade Nicolae Ceausescu, required, a radical turning point in economic activities. Regarding foreign trade—one of the important sectors of the Romanian economy—this radical turning point essentially concerns increasing the technical and commercial competitiveness of our exports.

Aspects of the specific means to increase the technical competitiveness of our exports were thoroughly discussed in the REVISTA ECONOMICA, which also included international marketing programs designed to promote exports in various branches. In this article we will discuss means of enhancing the commercial competitiveness of our export products.

The Quality of Export Programs

The economic-financial mechanism developed in the area of foreign trade under the current legislation ensures a modern and flexible framework for carrying out dynamic commercial activities based on the principles of self administration and self-management.

The question is, however: how is this mechanism wielded by the foreign trade enterprises? What are the consequences of the lack of coordination that still exists sometimes between the annual export volume suggested by various industrial centrals and ministries, and the orders portfolio they have at the beginning of the year; between the foreign contracts signed and actual contract deliveries, and between exports delivered and/or payment schedules and the country's actual incoming foreign currency?

The first aspect, that of securing the orders portfolio envisaged in the plan, raises questions regarding both the quality of planning and of canvassing-marketing-commercialization. The indiscriminate concept of an efficient foreign trade worker often limits the activities of such workers mostly to handling files, reports, and paperwork, which could be increasingly performed by machines (as is the international practice), thus freeing people for more conceptual work. This is necessary because—we must stress—foreign trade activities require intensive planning and preparation.

Foreign trade jobs are indeed attractive for many other professions, especially technical ones, but, as the party secretary general pointed out, the responsibilities and prerogatives assigned must be utilized to increase the volume and efficiency of foreign trade activities. The superficial character

of certain export programs that are not fulfilled, and lack of orders for plants earmarked under export investment order notes signify insufficient planning in export activities.

We want to specify that here it is not a question of creating additional jobs in this area, but of what is known in organizational language as "job description," i.e., what each worker in the export departments of enterprises, centrals, ministries, and specialized institutions does and what he is qualified to do. It is true that many industrial enterprises and centrals are aware of the need to work out marketing studies with a view to identifying opportunities for developing exports. But why are such requirements referred to outside sources, instead of the enterprises' own specialized cadres? Our economy can hardly afford the luxury of keeping on the payroll exclusively "operational" workers, especially university graduates, while export strategies and plans should have to be done by other specialists in the respective areas (graduates of specific university studies, not of introductory courses).

Promoting a more active attitude concerning the study of international markets and of the position of the respective enterprise in the market can be more efficiently achieved through the foreign trade mechanism by no longer totally exempting exporting industrial enterprises from conjuncture risks (and awarding them an additional profitability quota) and aligning the discount system to the international practice of commercial risk insurance, whereby commercial risks are covered only 90 percent. In point of fact, the insurance policy is issued only after the insurance company is satisfied that the exporter has taken all the necessary measures against risks as he would do if he were not insured.

#### Contract and Reciprocity Engineering

The recourse to method in foreign trade activities is currently more necessary than ever before, in view of the very objectives that we have set for ourselves. Thus, for the current and coming 5-year plans it is envisaged that major import contracts should be based on reciprocity. Thus, in his speech at the joint plenum, Comrade Nicolae Ceausescu said: "In our economic exchanges we must more resolutely implement the principles of payment in kind, more so since this system is becoming a necessity and is increasingly popular in the world in view of the financial situation and of excessively high interest rates."

Proceeding from the interpretation of the essence of the current crisis of the international monetary system not as a solvency crisis (sometimes indebted countries have very rich resources and goods) but as a liquidity crisis, one can draw important conclusions for action, and that applies to foreign trade enterprises, too. For various economic and political considerations, debtor developing countries refuse to purchase inflated dollars at a great cost in order to repay foreign debts incurred because of the exaggerated interest rates practiced by the founders and supporters of the current international monetary system. The large international financial centers, former initiators of the metropolis-colony commercial and banking relations, were capable of imposing—immediately after the war—an international monetary system structure that generally permits them to maintain their domination of "overseas territories." The powerful multinational network of providers of commercial and

financial-banking services, heir of the former Indies, Africa, cotton, rubber, and other "Companies," which in the 20th century became a network of banks, financial institutions, and multinational corporations, was the only financial infrastructure capable of taking over international foreign trade transactions at the time of "Bretton Woods," and was in consequence used as such.

Thus, we should not be astonished to see that some of the credit restrictions imposed on developing countries by the IMF are reminiscent of the commercial policy of the Indies Company, or that they are aimed at preserving the traditional metropolis-colony trade flow as much as possible. Equally legitimate is the increasingly resolute refusal of the countries of the "South" to accept the perpetuation of neocolonialism, be it only through the "odorless" means of bank interest.

Attempts to circumvent the faultlessly "packaged" credit services of the international financial centers were made—with various degrees of timidity—in the post-war period through bilateral barter and clearing agreements, and through reciprocal transactions. In recent years, the fear of western countries that the socialist and developing countries will close their markets to their exports made them recognize the "liquidity crisis," the "international debt crisis," and the "need to adapt trade to the changing world" and, as a result, reciprocal trade operations were launched on a big scale.

According to some estimates, about 20 percent of the world trade is currently carried out under reciprocal arrangements. Thus, all the big western industrial firms have acquired homonymous commercial societies. Banks have created services to assist in reciprocal trade matters. Certain associations specialize in commercial services for reciprocal operations (such as: Philipp Brothers in the United States, Kleinwort-Benson in England, Louis Dreyfus in France, and Metallgesellschaft in the FRG); the major international banks (Lloyd's, National Westminster, Midland, and Barclay's in England; Citicorp and Manufacturers Hannover in the United States; Creditanstalt Bankverein AWT and Centro Bank in Austria; Bank Handlowy Warszawie in Poland, and others) have established departments for that purpose. There are consultancy and study centers ("World Trade Data Systems" in Boston, "Batis"—International Business Services—in London, and "Business International" in Geneva) and international conferences concerning reciprocal trade (New York 1983, Vienna 1984, Rio de Janeiro and Singapore 1985), specialty magazines ("Countertrade-Barter Intelligence Newsletter/Report" in the United States, "North-South Countertrade, Barter, and Reciprocal Trade With Developing countries" put out by the data department of the ECONOMIST of England). The scope of political and commercial risks in international commercial transactions ensured by major banks (Lloyd's and American International Group) has been expanded to include reciprocal operations.

Thus, a new area of international trade and a new profession have emerged: financial engineering, described as the delicate art of matching the most diverse interests of partners in countertrade sale operations with the most diverse banking instruments. Consequently, agreements on and the implementation of countertrade operations—which currently take at least 10 forms: five forms of payment-in-kind (total, partial, three-ways, with financial switch, hardware, or subsidies); two forms of parallel operations (simultaneous and

in advance), and opening of reciprocal clearing or barter accounts—require a totally new approach to foreign trade, particularly from the financial-currency viewpoint, and forms of organization comparable to those established by partners for that purpose.

This is an additional reason that our foreign trade enterprises that are owed considerably amounts by developing countries have not managed to secure the payments due through reciprocal operations. Why can the experts of the Terra enterprise carry out reciprocal operations for the other foreign trade enterprises? Because they are better prepared and organized in the area of countertrade and barter.

### Structure Flexibility Conditioned by Thorough Professional Training

While until now it was said about the transfer from the producer's market to the consumer's market that it is easier to produce than to sell abroad, currently it can be said that it is easier to sell than to secure payment in reciprocal transactions. In order to meet these requirements, one needs more thorough information on the financial position of the contract partners, a better understanding of the instruments and means of payment used in international trade and of financial "engineering," and prompt and unequivocal action in currency and capital markets. In view of the fact that Terra-type foreign trade enterprises appear to be the only viable ones for carrying out reciprocal transactions in keeping with current requirements, the number of such enterprises can be increased, as long as they operate on the basis of self-administration. This solution is also indicated to deal with the considerable amounts due our country by various countries, a fact which hampers our foreign trade and our balance of payments.

We found it necessary to stress the high professionalism required by reciprocal trade in view of the experiences recorded by certain foreign trade enterprises concerning the way in which foreign partners fulfill their reciprocal obligations and contract insurance clauses that turned out insufficient or inoperative.

### The Advantages of an Active Strategy

Another development in current international economic relations which has imposed important structural changes, particularly in the financial-currency area, is increased currency risk generated by the system of floating currency rates. The position adopted toward currency risk may be passive (aimed at concluding contracts in the currencies that are appreciating at a given time), or active, based on currency arbitrage, which insures against currency risk.

Ignoring the existence of an arbitrage department at the Romanian Foreign Trade Bank which can cover against currency exchange risk, certain foreign trade enterprises hesitate to sign contracts in convertible currencies that are not appreciating, thus hampering the process of signing contracts on goods stockpiles. It is therefore necessary to develop a closer cooperation between such foreign trade enterprises and the arbitrage service of the Romanian Foreign Trade Bank, so as to neutralize the unfavorable effects of possible losses due to currency exchange fluctuations through hedging operations.



It is true that each sector must pursue the fulfillment of its import-export balance and secure currency resources for imports, but international financial relations currently have the means to mobilize currency resources on an on-going basis, to limit currency exchange risk, and to perform currency exchanges (against reasonable commissions). This arbitrage department is perhaps also too small to handle all our foreign trade exchanges, but this can be remedied. Sometimes, saving on foreign trade complementary services may end up causing enormous losses to the national economy, because inevitably one has to have recourse to foreign services, paid for in hard currency. Such is the case with the commissions paid for representation on commodity exchanges, for currency arbitrage in foreign markets, international insurance and transportation, distribution networks, and tourism. The experience of mixed banks with Romanian participation has amply proven the efficiency of the enterprise in the area of invisible international trade.

Increasing mutual dependence in the world economy and the increasingly pressing need to optimally combine production factors in order to resist international competition have caused the phenomenon of international cooperation to spread to all the areas of economic life: research and planning, design, production, management and organization, marketing, transportation, insurance, banking, consulting and engineering, and so forth.

Like in the case of international financial relations, in the area of cooperation, too, the enterprise can adopt an active or a passive strategy. When an enterprise canvasses the market and suggests cooperation proposals to the partner, it can be said that its strategy is active, while if it merely examines proposals coming from the outside, its strategy is passive. The advantages of an active cooperation strategy can be essential, in that the enterprise capitalizes on its or the country's truly competitive production factors and works to coopt foreign firms that are truly competitive in complementary areas.

Along this line, Comrade Nicolae Ceausescu stated at the joint plenum: "We can and must do everything possible for our enterprises to actively participate in the joint manufacture--together with enterprises in socialist and other countries--of high technology and quality products for both our mutual needs, and for export."

More dynamically and flexibly adapting our foreign trade system to these new requirements in international economic relations will permit us to better utilize labor and raw materials in our exports and to generally increase the efficiency of Romanian foreign trade in the current and future 5-year plans.

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ROMANIA

PROGRAM FOR RECYCLING REUSABLE MATERIALS REVIEWED

Bucharest REVISTA ECONOMICA in Romanian No 26, 28 Jun 85, pp 11-12

[Article by Sorin Buligescu, technical director of the Central for Recovering and Utilizing Reusable Materials: "Intensifying the Process of Recovering and Utilizing Reusable Materials"]

[Text] The recovery, reconditioning, and utilization of reusable materials derived from technological processes or consumer use is a major concern of undoubted importance and topicality that is currently being devoted great research, organization, and investment efforts designed to ensure the most efficient possible methods of collecting and reconditioning materials, working out appropriate reconditioning and utilization technologies, and building production facilities that can turn such materials into various products and consumer goods. This requirement is compounded by the continuous diminishing of raw material resources and the high cost of raw materials, factors with a negative impact on economic growth, but which can be moderated or even neutralized by appropriately organized actions to reutilize reusable materials.

In our country, the actions organized in recent years to increase the volume of reusable materials reconditioned and reutilized in production have yielded some noteworthy results. In view of that and of the need to intensify efforts in this area, the joint plenum of the National Council of Working People and the Supreme Council of Socioeconomic Development of 17-19 June adopted new measures to expand the collection and utilization of reusable materials and to recondition parts and subassemblies during the 1985-86 period. The purpose of these measures is to ensure: the technical-material basis required for appropriate supplies in all areas--as a key objective for smooth production and socioeconomic activities; achievement of the high rates of development envisaged in the directives of the 13th RCP Congress in all the economic sectors--as a major condition for bringing the national industry and economy up to the level of international performance, and raising the people's living standard; reducing material and production expenditures--as a vital means of increasing efficiency and profitability. These are only a few of the elements that determine a new way of thinking and shaping economic growth, based on a shift in the relation between extensive and intensive factors in favor of the latter, on a better utilization of material, human, and financial resources, and on cutting losses down to the minimum by expanding recycling and reutilization actions.

Viewed in this light, the recovery and utilization of reusable materials acquires a new scope and becomes a genuine source of supply that can make a decisive contribution to providing the largest possible quantities of domestically procured material resources, fuel, and energy required to sustain high rates of economic development. The actions and measures established by the

higher party-state leadership and by Comrade Nicolae Ceausescu personally to improve the activities involved in the process of recycling reusable materials--in accordance with the specific features of the Romanian economy, the significant results achieved in the world, and the experience gathered in our country in this area--have laid the foundation for an efficient system of collecting, delivering, and reutilizing reusable materials, and have facilitated the establishment of an appropriate organizational framework for these activities.

The efforts made in recent years by both research and design institutes and by recovery centrals and enterprises, as well as by economic units to recover and reutilize reusable materials--efforts that were continuously improved by the guidelines and recommendations of the party secretary general, Comrade Nicolae Ceausescu--have led to important achievements. Thus, the system of collection, processing, and delivery of reusable materials was expanded; some 130 production facilities for processing and utilizing these materials were opened or modernized; the research sector supplied over 120 new utilization technologies; processing and utilization capacities in economic units were expanded, so that currently a large number of enterprises have the equipment to bale metal sheets, to crush and briquet shavings, to mill high-density polyethylene and so forth; the collection network for various consumer materials has also expanded.

These achievements have produced good results in increasing the quantities of recovered reusable materials returned to the production flow. At the same time, the reconditioning and reutilization of spare parts and worn subassemblies expanded, to the effect that in 1984 the volume of such elements totaled 13.6 billion lei, 8.1 billion lei more than in 1980, and provided 29 percent of the spare parts used in the country.

However, in view of the fact that the national economy still has considerable untapped resources of industrial and consumer scrap material, that the percentage of some reusable materials in the overall consumption of raw materials is still relatively low (43.7 percent steel, 23.3 percent aluminum, 27.1 percent zinc, 24.6 percent paper and cardboard, etc. in 1984), and that there are delays in the fulfillment of the special program adopted by the national party conference of 1982 for intensifying the recovery and utilization of reusable material resources, it emerges that, despite the results obtained, there are still many possibilities for improving activities in this sector, possibilities that must be immediately utilized in the interest of the entire economy. We are referring primarily to resources in the area of organizing, sorting, collecting, and processing reusable materials, to which many economic units have not paid due attention, delivering considerable quantities of such materials pell-mell, thus making it difficult to efficiently recondition them. Ensuring the necessary technologies for the reutilization of all recovered materials is another area in which further intensive efforts must be made, in view of the fact that large stocks of such materials are still waiting to be taken into production. The same applies to the program of investments allocated to the recycling industry, which is lagging behind.

In order to ensure a greater share of reusable material resources and reconditioned spare parts in meeting economic requirements, and thus to improve the supplies of raw and other materials to economic units, a program on

intensifying the collection and utilization of reusable materials and reconditioning spare parts and subassemblies has been worked out for 1985 and 1986 in accordance with the recommendations of the party secretary general, Comrade Nicolae Ceausescu; the program was debated and endorsed at the recent joint plenum of the National Council of Working People and the Supreme Council of Socioeconomic Development. In keeping with the achievements obtained to date, the real potential of the economy in this respect, and the technical and technological potential of our recycling industry, the program envisages increased volumes of material resources recovered from socialist units: 5-10 percent more than this year's plan provisions, and 10-15 percent more in 1986; the volume of recovered consumer scrap is also envisaged to increase by 20-25 percent. In order to attain these objectives, the program envisages tasks for the major sectors of activity, as well as the main steps that are to be taken to increase the quantities of reusable materials recovered and utilized.

The importance of each economic unit fulfilling its tasks in recovering and utilizing reusable materials and of intensifying efforts to utilize all existing resources in recycling activities is clearly pointed out in Comrade Nicolae Ceausescu's speech at the joint plenum: "Proceeding from this program, in the 1986-90 5-year plan at least 50 percent of the raw materials required to increase production must be derived from the recycling and reutilization of raw materials. Much more, 65-70 percent, can be achieved in some areas!"

In keeping with the program provisions, in the metallurgical sector, the quantities of scrap iron used in steel mills will increase, thus enhancing the contribution of such resources to the total steel production. For that, extensive actions and measures must be taken to better organize the recovery, sorting, processing, and shipping of all metal scraps from each enterprise; along this line, it is very important to as soon as possible provide each enterprise of the Ministry of Machine Building Industry, the Ministry of Metallurgical Industry, and the Ministry of Technical-Material Supply and Control of the Management of Fixed Assets with the installations for crushing and briquetting steel and pig iron shavings as envisaged in the program jointly worked out for this purpose. Similarly, in order to increase the volume of scrap iron delivered to the steel mills, the 820 tf hydraulic scissors made as a prototype by the Iasi heavy equipment combine must be standardized and mass produced as soon as possible, so that large suppliers or users of scrap iron and major recovery centers can acquire such equipment.

In the area of non-ferrous metals, the program envisages increased quantities of recovered copper, bronze, brass, aluminum, and lead. The actions that will be organized for this purpose will be aimed mainly at: ensuring that each piece of equipment is taken apart and that all non-ferrous components are separated from those made of steel, pig iron, and other metals and sorted out; urgently taking into production installations for processing lead and aluminum ashes; intensifying purchases of household objects made of non-ferrous metals; speeding up research work on best utilizing useful elements (manganese dioxide, zinc, etc.) from used galvanized batteries collected from the population, and so forth.

As for the rubber and plastics industry, in order to fulfill the provisions established in the area of recovering and utilizing reusable materials, the program envisages the following major objectives: expanding the recovery and

utilization as such of hothouse and greenhouse sheets (from 7,000 tons in 1985 to 7,540 tons in 1986); speeding up the opening of the plants for granulating low-density polyethylene (sheets) planned to be built in Plenita, Buftea, and Nasaud; opening on schedule the new capacities for restoring used tires; expanding the range of tires that are restored; working out technologies for reconditioning used rubber belt conveyors, and finalizing on schedule the investment projects planned at the Tirgu Jiu enterprise for industrial rubber items; completing on schedule the experimental module at the Darmanesti refinery for the heat conductor pyrolysis of used tires that cannot be restored or repaired, and of other reusable items made of plastic materials.

In the textile industry it is envisaged to expand the utilization of the large stocks of textile scraps collected; for that purpose, it is necessary to expand the range of products manufactured from reusable textiles, primarily by promoting appropriate technologies. Particular attention must be paid to utilizing reusable textiles that cannot be processed in the form of fibres and yarns as insulation material in the construction materials industry. Similarly, efforts must be intensified to establish appropriate technologies for processing used textiles with a high contents of mixed polyester fibers and jute. These measures and actions must be organized and implemented so that by the end of 1986 we can ensure the complete utilization of all resources collected from the population.

The program also envisages mobilizing tasks for other economic sectors, such as the cellulose and paper industry, the glass industry, etc., where the quantities of recovered and utilized reusable materials must be increased.

Special importance is attached to increasing the volume of recovered and reconditioned spare parts, which in 1986 must increase to 15.1 billion lei, thus bringing their share of required spare parts up to 32.3 percent.

As it can be seen, each enterprise, central, ministry, people's council, mass and civic organization, and the county central and enterprises in charge of material recovery and utilization has clear guidelines and tasks for the present and the future for intensifying the collection and utilization of reusable resources. The implementation of these tasks will bring important improvements in the process of utilization of the country's resources and will contribute to the efficient and maximum utilization of these resources in material production.

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YUGOSLAVIA

PROSPECTS OF BOOSTING PRODUCTION VIEWED

Belgrade NEDELJNE INFORMATIVNE NOVINE in Serbo-Croatian No 1795, 26 May 85  
pp 18-20

[Unattributed article: "We Can Produce More"]

[Text] I am looking over the World Bank Atlas for 1985. Perhaps it is a mistake, but Yugoslavia's per capita social product is shown at \$3,100 in 1982, \$2,570 in 1983, or a drop of 17 percent. We know from domestic figures that the year 1984 corrected that dark picture by barely 1.2 percent. The Resolution for 1985 envisages that the social product will rise 3 percent. The trends of industrial output, construction, transportation, exports and tourist lodgings in the first months of the year could jeopardize even that modest growth rate. Within those limits it does not appear possible to perform those main and indissolubly related tasks imposed by the present economic and social situation. An annual growth rate of the social product of at least 5 percent is required for simultaneously increasing the inflow of foreign exchange, halting inflation and stopping the drop in the standard of living, taking the burden off the economy and creating more jobs for young people.

Now we have to fight so that that is feasible as soon as possible. We have to believe that that is achievable. We have to use all available means to achieve that in 1986.

With full understanding for the difficulties that have arisen out of the economic and political system, which economic policy has been coming into conflict with in recent years, it cannot fail to be criticized for having acted resignedly, almost faintheartedly, without that fighting spirit indispensable to zeal, without that creative inventiveness in rapidly stopping flows which obviously are insupportable.

The economy's fixed active assets are being utilized very poorly, and they contain an enormous untapped potential for augmenting output and exports.

We had good reason to be dissatisfied with the level of capacity utilization in industry at only 68 percent in 1981, but in 1984 we fell still lower to

about 64 percent. In and of itself that negative spread represents a very sizable amount of lost social product. If only the capacity utilization of 1981 had been achieved, the growth of the product of industry would have been twice as great as what was actually recorded. When we bear in mind that for every unit of the social product of industry there are approximately 1.5 units of the product of all other economic sectors, it follows that thanks only to a level of capacity utilization in industry of 68 percent the average growth rate of the social product over the 3-year period 1982-1984 would have been about 5 percent instead of the actual 0.5 percent.

This computational hypothesis has no other purpose than to indicate the scale of the untapped potential that exists and the extreme importance of activating that potential.

We have mentioned here only the active fixed assets of industry. Another large area of untapped potential lies in investment projects which have not been activated. Investments in industry, in the economy as a whole, have been on the decline in absolute terms, but their efficiency has been steadily deteriorating for years. The yield of the social product per unit investment, the most authoritative indicator in evaluating the material viability of an economic system, has reached an absurdly low level. It reveals that the sum total of fixed assets, activated and unactivated, has in relative terms been growing much more rapidly than the social product which is what those assets are presumably for.

Given the present general achievements of the market, planning and integration, and if the lack of harmony between current policy and development policy of the Federation and the republics and provinces persists, the untapped potential sketched out above would unfortunately remain mere economic imaginings. Nevertheless, let us remain a bit longer in this domain of the "impossible" possible, this time concerning investments.

The real trend of investments in the fixed assets of the economy, in 1980 prices, has been as follows in recent years:

<u>Year</u>	<u>Billions of Dinars</u>	<u>Year</u>	<u>Billions of Dinars</u>	<u>Year</u>	<u>Billions of Dinars</u>
1979	422.2	1981	359.0	1983	313.7
1980	396.0	1982	340.2	1984	283.6

In per capita terms these investments would amount to about 19,000 dinars in 1979 and only about 12,300 in 1984. A dangerous gap has been created thereby in continuity of the country's development efforts from the standpoint of building up the productive forces in the future, of productive employment of young people, of more rapid assimilation of scientific-technological progress, etc.

Why? Economic policy seems to have admitted that on the foundations of the economic system in place and that portion of the political system which has a direct significance for management of the economy it is not possible to

successfully solve the fatefully important problem of investment efficiency. Going on in the old way, with exaggerated and extensive investment, would result in economic paralysis, first of all in the domain of foreign economic relations. Since by and large there are no investment projects which do not involve importing equipment, the only remaining way of cutting this short, the administrative method, i.e., extreme restrictions on imports of capital goods, has been used. Imports of equipment fell from \$3.6 billion in 1979 to only about \$1.4 billion in 1984.

The drastic drop in investment accentuated the crisis of the capital goods industry, whose physical volume of output in 1984 was smaller than in any of the three previous years. The crisis of the construction industry was still greater.

The drop in utilization has also occurred with respect to the labor force in construction. In 1980 there were 1,325 hours of construction for every employee, but in 1984 only 1,152 hours, or about 14 percent fewer.

Because of the very low efficiency of investments which has been notable for an entire decade now, there is an immense untapped potential for rapid growth of the social product. No one could have been particularly happy when in the period 1973-1978 we recorded a capital coefficient, that is, the ratio of investments to the growth of the social product, of 5.7, since that is unfavorable by comparison with the advanced countries. However, the collapse of investment efficiency manifested since that time has shown all the dimensions of the absurd situation that comes about when the social product stays at the same level, but investments still go on, although in smaller volume. The figures given are in billions of dinars, the prices are those of 1980:

<u>Indicator</u>	<u>1979-1981</u>	<u>1982-1984</u>
Sum total of investments in fixed assets of the economy	1,178.0	937.0
Growth of the social product	153.0	25.0
Ratio--capital coefficient	7.7	37.6

The conclusion to be drawn therefrom is a very simple one. If at the same level of investment over the 3-year period 1982-1985 we had had at least that efficiency of investment, although objectively unfavorable, which we achieved during the three previous years, the growth of the social product would not have been 25 billion, but 122 billion dinars. The average annual growth rate would not have been 0.5 percent, but 2.5 percent. With an investment efficiency of 5.7, the growth rate of the social product would have been 3.4 percent.

Emile Zola would shout at this point J'accuse (I accuse), but that is off our topic. However, we should not forget that investments in fixed assets of the economy did drop off excessively even in absolute terms in the period 1982-1984, so that at the end they fell to only 17.7 percent of their share in the distribution of the social product. There is no doubt that there is no way in which this can serve the needs of a country which in terms of the per capita



social product is still among the last in Europe. Let us assume, then, a much more suitable share of investments in the social product, say 25 percent. With a capital coefficient of 5.7 we would have had an average annual growth rate of 4.4 percent of the social product in the period 1982-1984.

Now let us look for dropped stitches in the guidance of the economy, that is, the consequences of the passivity and restrictions, in the domain of the working capital of the economy. Its year-end statements show a very large total amount of captive assets. The ratio of working capital employed to gross income dropped off essentially after introduction of the laws embodying the system some 10 years or so ago, so that in 1984 we achieved an impermissibly low turnover coefficient of only 2.4. Let us leave to one side the more remote period, say the period 1969-1972, when the turnover coefficient always ranged higher than 4. Let us not even long for a coefficient of 3 in these hypotheses, which is what we recorded in 1973-1974, let us take what we averaged over the period 1975-1977, immediately before introduction of the foreign exchange law and the other laws embodying the system, and that was a turnover coefficient of 2.8. The same total amount of working capital employed in 1984 would have yielded a growth of the social product at an average annual rate of 5.8 percent over the 3-year period 1982-1984 instead of the actual 0.5 percent.

It is well known that with respect to total labor productivity the human factor also contains immense untapped potential for rapid growth of the social product. The next series of figures shows in 1980 prices the trend of the social product per employee in the economy:

<u>Year</u>	<u>Thousands of Dinars</u>	<u>Year</u>	<u>Thousands of Dinars</u>	<u>Year</u>	<u>Thousands of Dinars</u>
1979	333	1981	324	1983	313
1980	330	1982	320	1984	309

With the same productivity of labor which we have already achieved, let us take here the years 1979 and 1980, the same number of employees in the economy in 1984 could have produced a considerably larger social product than was achieved. Just over the period 1982-1984 that would have yielded an average annual growth rate of 3 percent instead of the 0.5 percent that was achieved. However, one additional essential factor must be added to this computation, i.e., the value of technical equipment per worker. Taken as the real value of fixed capital per worker, in 1984 it was about 11 percent better than in 1979 (author's estimate). When we take this into account, at the labor productivity in 1979 the social product per employee in the economy in 1984 would have had to be about 343,000 dinars instead of 309,000. Over the 3-year period 1982-1984 this would have yielded an average growth rate of the social product of 6 percent.

The productivity of labor is determined, to be sure, by the individual's skill and effort, but on the aggregate scale of the nation it essentially depends on the effects of the economic system and economic policy as the general conditions for the potential productivity of individuals and collectives to be able to make itself felt most fully. Unfortunately, in this respect associated

labor has not been offered what it needs. The polycentric and supercilious republic-federal statism which exists in our reality has been a decisive inhibitor in this regard.

Let us recall Lenin: "The workers have to defend their (bureaucratic) state, but they likewise must defend themselves against that state." Yugoslav associated labor ought not to accept in the present-day phase of development a lower growth rate of the social product than 5 percent.

Provided that is afforded by the country's overall foreign exchange potential!

We will point up this question, which today is truly a key issue, by the same "method of past achievement." It is of interest, then, first to see the country's inflow of foreign exchange, which in recent years has ranged as follows (in billions of dollars):

<u>Indicator</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>
Exports of goods	10.9	10.2	9.9	10.2
Transportation	2.0	1.8	1.4	1.5
Tourism	2.0	1.5	0.9	1.1
Worker remittances	5.1	4.4	2.9	2.9
Collection of interest	0.4	0.3	0.2	0.2
Work done outside the country	1.4	0.8	1.1	0.8
Transfers (gifts)	<u>0.4</u>	<u>0.4</u>	<u>0.5</u>	<u>0.6</u>
Total	22.2	19.4	16.9	17.3

This is a table of paradoxes. The total inflow of foreign exchange in 1984 was \$5 billion smaller than in 1981!

What accounts for such a large drop in 1982 and later? How could economic policy have allowed the inflow of foreign exchange to fall to such a great extent at precisely a time when the immense payments against foreign debts were coming due? Were there any general forecasts and estimates concerning that matter?

That again is another topic, but here we were furnished just one conclusion. The tactic used was passive and restrictive: defer the debts and reduce imports by the amount of the shortfall of the inflow of foreign exchange. This is undoubtedly one of the main reasons for the stagnation of the social product over the period 1982-1984.

Let us go back to studying the latent foreign exchange potential for restoring the desired growth rate of the social product. Augmenting imports is one of the premises. Imports fell from \$22.9 billion in 1981 to \$16.8 billion in 1984.

If we start with "past performance," there is no doubt that the inflow from visible exports, transportation and work done abroad (along with miscellaneous other things) could and must be appreciably greater. In 1981 exports amounted

to \$2,250 per person employed in the economy, and in 1984 the figure was only \$1,980. At the "rate" established in 1981, the labor force that existed in 1984 should have achieved exports about \$1.4 billion larger than actually was the case. Or, take the ratio between exports and the fixed capital of the economy. In 1981 visible exports per unit of fixed capital were about 19 percent greater than in 1984. This means that the sum total of fixed capital the economy possessed last year, at the "rate" established 3 years ago, should have yielded exports about \$1.9 billion greater than it did.

The loss of the inflow of foreign exchange from transportation is obvious. Here the drop between 1981 and 1984 was \$500 million. The particularly bad situation in this sector with respect to capacity, the quality of services, and so on, especially in rail and highway transportation, must be urgently corrected if we are to return as soon as possible to at least the foreign exchange result we had in 1981. The unjustified loss of inflow from work on capital investment projects abroad is also obvious.

If only visible exports, transportation and work abroad (along with miscellaneous) had brought an inflow at the 1981 level, imports in 1984 could also have been considerably greater, and that would have meant a larger social product (at approximately the level of the 3-year average growth rate of 5 percent).

Methodological changes in the way the National Bank of Yugoslavia keeps records in the domain of the inflow from tourism do not allow us here to make calculations similar to those described. Up until 1982 the inflow from tourism also included estimates of remittances from private tourism, and thereafter that was excluded. But it is not evident where it was included! It is notorious that a large amount of the inflow of foreign exchange does go into private tourism, which under other conditions ought not to be a bad thing, but it is also notorious that very sizable funds from socialized tourism also end up in the hordes of individuals kept at home or in their foreign exchange accounts.

Remittances of workers from abroad have also dropped off sharply since 1981. We should look for the causes both in the numerous errors made in the regime governing the foreign exchange savings of individuals and also in the very unfavorable psychological impact on those employed outside the economy by the disintegration of the energy balance (electric power cutoffs, gasoline rationing coupons, etc.) and the shortages of staples, ranging from flour, sugar and vegetable oil to building materials, tires, manufactured fertilizers, and so on.

However, in spite of the possible foreign exchange potential we have sketched out, economic policy should also have given active consideration to a number of other factors for increasing the foreign exchange potential, imports, and the exports based on them, as well as a growth of the social product. We will enumerate them in telegraphese.

The inflow of foreign exchange from joint ventures, now symbolic, can be taken as a potentially important item, on an order of magnitude of \$200 million a

year. A correct policy toward small business could have brought it about that a considerable number of those employed abroad would have transferred their foreign exchange savings and invested them in new jobs in the country. Probably every 10,000 such returnees could have meant an inflow of \$200 million of foreign exchange. An attractive housing policy could have acted similarly.

The management of the aggregate of foreign exchange could have been more purposive. It is neither correct nor necessary to reduce the country's foreign debt except in relative terms. In our case today it is not indispensable to increase the country's foreign exchange reserves beyond the level which corresponds to the skill of a resourceful central bank. It is not indispensable to reduce the volume of foreign short-term commercial credits, bank lines of credit, and so on, to the point where the necessary purchases of imports become impossible.

In foreign economic policy, the foreign exchange regime, and so on, it is unforgivable for the export prices of goods and services to reflect the desire to sell at all costs, as has recently been the case.

Withdrawals from the foreign exchange accounts of individuals could be moderated. It is not correct for an economy to suffer from intense restrictions on imports, while for all practical purposes there are no obstacles whatsoever on individuals in this regard.

Sizable savings are possible in the productive consumption of imported goods (energy raw materials and other raw materials, and so on).

Wherever feasible foreign exchange should be consolidated in order to obtain a potential capable of allowing indispensable imports, so that a rapid growth of production and exports can be achieved. The imports--production--exports cycle must be closed better than it has been in the past. It can no longer be tolerated that such a scanty foreign exchange potential, even that afforded by foreign credits, be turned into undeserved domestic consumption.

The 17th Meeting of the LCY Central Committee, which was held recently, placed the growth of the social product and exports in first place among the strategic commitments in the fight against inflation. The unity of the Yugoslav market and reintegration of the economy represent the first precondition for that. It is the primary responsibility of economic policy to pluck the country as soon as possible out of the insupportable stagflation, and there is no doubt that this is possible.

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